PRIVATIZATION AND ITS FUTURE IMPLICATIONS IN LIBYA: A CASE STUDY OF THE LIBYAN NATIONAL TEXTILE COMPANY

SALEH MOHAMED ABDUSSALAM

**A thesis submitted in partial fulfilment
of the requirements of the
University of Northumbria at Newcastle
for the degree of
Doctor of philosophy**

Research undertaken in the Newcastle Business School

June 2006

ABSTRACT

This thesis discusses many vital issues related to the Libyan economy in general and the privatization programme in particular. The current study has adopted a triangulation strategy to achieve its objectives including descriptive-analytical and field study approaches. It has relied upon a questionnaire survey and in-depth interviews to acquire the necessary data. The most important reason for relying on these two methods was primarily due to lack of information on the subject of this study. The study addresses the main barriers that impede the successful progress of the privatization programme in Libya. In this regard, the 21 factories of the Libyan National Textile Company (LNTC) were selected as a case study, through which the disadvantages inherent in the privatization programme have been exposed. Moreover, in a comparative analysis, the field survey included 40 New Private Firms (NPFs) initially owned by the private sector. In this context, the hedonic technique has been applied in order to make comparison between the two groups of firms in terms of their performance and profit maximization.

This study specifically addresses both the administrative and the economic aspects of privatization, raising the following three main questions concerning the status of privatization in the context examined, and the factors influencing the outcomes observed: (1) Has the privatization programme been a success or a failure and what have been the main underlying reasons? (2) To what extent were the attitudes of managers and workers in privatized factories a barrier to the smooth implementation of privatization? (3) What are the main prerequisites for a successful privatization programme in Libya?

Among the major findings of this study are that privatization in Libya had been negatively influenced by many fundamental problems prevailing at both the micro and macro economic levels. In particular, as found from the application of the hedonic technique, the NPFs have been more successful in attaining profit-maximization than the LNTC. This is particularly worrying as the latter group were privatized well over 15 years ago with a resulting much larger share of the market.

ACKNOWLEDGEMENTS

I am deeply indebted to Allah for all the bounties he has granted me and all the success he has bestowed upon me.

I would like to extend the warmest thanks to my principal supervisor, Dr. Majid Taghavi, for his unlimited support, supervision, encouragement, and guidance throughout the entire period of my work on this thesis. It has been a great pleasure to work with him.

I want to thank Dr. Jon Pemberton and Dr. Kevin Hinde for their constructive comments and support as my second supervisors.

The unflagging encouragement of my family during this research must be acknowledged. The patience of my wife Aslam and my daughters Aisha and Alaa have been notable during the whole period of this study.

I would like also to extend my thanks to all the members and staff in the Business School, and to all my friends who never forgot to include me in their prayers.

Finally, many thanks go to the many organizations, such as the Ministry of Industry and the General Board of Ownership, who provided support and the individuals who gave their time to assist in completing the questionnaires for this study.

DEDICATION

This thesis is dedicated to

My Parents

MOHAMED AND *AISHA*

for their ceaseless love, support and encouragement to pursue my dreams and ambitions

and

My wife ASLAM and our two daughters

AISHA & ALAA

for being my principal sources of support and inspiration.

TABLE OF CONTENTS

CHAPTER THREE
AN OVERVIEW AND ANALYSISOF THE LIBYAN ECONONY

CHAPTER FOUR
PRIVATIZATION IN LIBYA

CHAPTER FIVE
RESEARCH METHODOLOGY

CHAPTER SIX
DATA ANALYSIS AND DISCUSSION

CHAPTER SEVEN
SUMMARY, CONCLUSIONS AND POLICY RECOMMENDATIONS

APPENDICES

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

BOO	Built-Operate-Own
BOT	Built-Operate-Transfer
BPC	Basic Popular Congress
CBL	Central Bank of Libya
CPI	Consumer Price Index
GBO	General Board of Ownership
GDP	Gross Domestic Product
GPC	General People's Committee
HRM	Human Resource Management
IMF	International Monetary Fund
IPO	Initial Public Offerings
L.D	Libyan Dinar
LNTC	Libya National Textile Company
LPSF	Local Production Sponsorship Fund
MEBO	Management Employee Buy-Out
NGOs	Non-Governmental Organizations
NPFs	New Private Firms
SOEs	State Owned Enterprises
SPSS	Statistical Package for the Social Sciences
WB	World Bank
WTO	World Trade Organization

CHAPTER ONE
INTRODUCTION AND THE PURPOSE OF THE STUDY

1.1 Introduction

Privatization is considered to be one of the most important issues in modern economic thinking, not only at the local level but also internationally, and researchers continue to target it for both theoretical and empirical work (El-Naggar, 1989; Boubakri and Cosset, 1998; Claessens and Djankov, 2000; Megginson and Netter, 2001; and Omran, 2004).

However, privatization as an economic concept dates back to the time of Adam Smith. In his book *the Wealth of Nations* published in 1776, Smith called for nations to rely on market powers, as well as individual initiatives to boost the processes of privatization and the division of labour, in order to achieve economic efficiency at both micro and macro levels. Nonetheless, the economic history of nations reveals about a number of attempts featuring the economic transformation to the private sector at different times (Sheshinski and Lopez-Calva, 2003).

These attempts were mainly inspired by the failure of the public sector to achieve its objectives. On the other hand, the practical experience has given the private sector the edge over the public sector, a phenomenon that has become the focus of much attention in economic thought. In this context, a number of theories have been developed, all of which favour the private sector as opposed to the public sector.

For example, the theory of property rights highlights the difficulties that the public sector faces, such as in motivation and the excessive monitoring of managerial performance which tends to make managers less self-motivated compared to their counterparts in the private sector. Eventually this is predicted to confine managers in the public sector to specific modest objectives defined by policy-makers. Furthermore, public choice theory confirms this concept, concluding that the intentions of public sector managers to achieve their personal interests (wealth, power, social status etc.) will encourage them, whether directly or indirectly, to join forces with their superiors.

It is interesting to refer to the British model which has been the typical example in practice regarding privatization so far. In 1979 the British government launched a huge programme targeted at raising revenues for the state, reducing government interference in the economy, and subjecting State Owned Enterprises (SOEs)[1] to market discipline while promoting wider share ownership (Megginson and Netter, 2001). The perceived success of the British experiments helped persuade many other countries to being divesting SOEs through public share offerings led by France, Italy, Turkey, Argentina, Brazil, Chile, Colombia, India, and Pakistan, as well as a number of countries in the Arab World such as Egypt, Tunisia, Morocco, Jordan, Kuwait, and the UAE.

However, despite the benefits of privatization programmes, major problems might be experienced unless a comprehensive and strategic plan is considered incorporating all the requirements and the conditions that must exist prior to carrying out these programmes (El-Naggar, 1989).

This matter may imply the introduction of a number of economic and political reforms deemed by some as paramount for dealing with the political and institutional aspects of privatization. Hence, the process should involve a close examination of the experiments of other countries regarding the advantages and the disadvantages of privatization programmes.

Libya is no exception, and after independence from colonial rule the Libyan government took on a wider role and greater authority in the face of widespread poverty and socio-economic inequality. The state thus became responsible for the redistribution of wealth and social welfare provision. However, by the late 1980s, when it became evident that the nationalization of businesses and activities had failed to improve the economy, the Libyan government began introducing a programme of privatization. That part of the public domain which was privatised was very limited, and it included some small and medium enterprises (the property of which was transferred to their existing workers). However, available indicators show a low level of economic performance in most privatised firms[2]. Moreover, capacity utilization and output growth have been lower in these enterprises than the corresponding average in the public sector (Mirza, 1998; Hawadana, 2003; Faitouri, 2003). For example, the agricultural sector suffered from the dispersal of cultivated land, soil infertility, lack of water supplies and adverse climatic conditions. The activities of the manufacturing sector, on the other hand, were very limited, as a result of lack of raw materials and shortages in power supplies as well as in a trained workforce. Moreover, the local market was not large enough to fulfil domestic demand and, above all, the state failed to attract the required investment to salvage the economy.

The objectives of the current study will try to shed light on some specific elements of the Libyan economy in general and the manufacturing sector in particular including problems and methods. The study examines the privatization programme which has taken place in Libya from the late 1980s to 2004, focusing on factors that influence privatization at the level of employees, enterprises, and the relevant legislation. All of these are factors which must be taken into account by policy-makers. Specifically, the study addresses the following three questions concerning the status of privatization in the context examined, and factors influencing the outcomes observed:

(i) Has the privatization programme been a success or a failure, and what have been the main underlying reasons?

(ii) To what extent were the attitudes of managers and the workers of privatized factories a barrier to the smooth implementation of privatization?

(iii) What are the main prerequisites for a successful privatization programme in Libya?

In order to acquire the necessary information and data relevant to the research objectives the methodology of this study has been divided into four parts: Part one a field survey of the factories of the Libyan National Textile Company (LNTC) using the questionnaire method. The survey includes 21 factories distributed all over the country. Part two a field survey of a sample of New Private Firms (NPFs) established since 1994. The total number of firms is 40, operating in the textiles industry. The underlying aim is to acquire the necessary data to allow a comparison between the LNTC and the NPFs. Part three the analysis of data by using the hedonic technique, and part four concerning the personal interviews which conducted with decision-makers in the General Board of Ownership (GBO) in Libya, which is the body entrusted with carrying out and controlling the privatization programme.

However, this study concludes that the privatization programme in Libya has faced a number of difficulties and barriers, and to remove these a realistic and comprehensive plan featuring reforms of the state's economic policies needs to be considered.

1.2 Plan of the Thesis

This thesis is divided into seven chapters. Chapter 2 presents a number of theoretical perspectives on the topic of privatization. This includes various definitions, theories, methods, rationales, and practical experiences of privatization. Specific emphasis is given to discussing the potential determinants of post-privatization performance. Chapter 3 gives a brief overview of the Libyan economy before and after the discovery of oil. Particular focus is given to the characteristics of the Libyan economy. Chapter 4 reviewed the Libyan economy and state domination, privatization, economic trends and developments, the public sector's role, obstacles to privatization in Libya, the characteristics of the Libyan manufacturing sector, and the chances and requirements of economic reform in Libya. Chapter 5 discussed the research methodology. Chapter 6 is divided into four major parts. Part one reviews and analyses the data related to the LNTC. Part two reviews and analyses the data collected from the NPFs. The purpose is to solicit their attitudes about obstacles to the privatization programme in Libya. Part three relates to the hedonic technique model which is applied in order to identify the most important variables affecting the profitability of firms. Part four reviews and analyses data obtained from the personal interviews. Chapter 7 summarizes the main findings of the study and provides policy recommendations, followed by an outline of the limitations of the study and suggested area for further research.

1.3 The Research Problem

The manufacturing sector in Libya has received much attention from the government as can be seen from the total allocations invested in this sector which have exceeded LD 4315 million distributed among 25 factories employing more than 47,000 producers (Mirza, 1998; and Alqadhafi, 2002). However, apart from 17 items of local products produced at the rate of 60% of the maximum production power of the factories, the production rates in other industries range between 9 to 59% of their maximum potential power (Mirza, 1995, 1998; and Alqadhafi, 2002).

In an attempt to rehabilitate the factories and in order to boost their productivity, the state has intervened by privatizing all the factories of the LNTC, transferring its ownership to the existing workforce and management. As a result, many problems and difficulties have emerged, including: (i) most of the former managers carrying on their duties in the same way as before; (ii) irresponsible behaviour shown by some of the workforce after becoming the owners of the factories, reflecting their poor understanding of the privatization process; (iii) inadequate capital for running the privatized factories; (iv) the privatized factories were still operated as if they were part of the public sector, especially during the first five years following privatization (for instance in the almost complete dependence on the state for obtaining foreign currency in order to buy raw materials and other equipment); and finally, excess unsold stock was accumulated as a result of the lack of efficient marketing policies.

These phenomena have prompted the present research given the fact that these factories are still underperforming despite the privatization process (Mirza, 1995, 1998; Hawdanah, 2003, Faitouri, 2003).

1.4 Research Aims

To address the research problem, this study aims to evaluate the impact of privatization in the factories of the LNTC in the post privatization period. Hence, the study has the following four specific aims:

1. To provide a descriptive analysis of the privatization process in Libya comparing it with models of privatization developed in the literature, and identifying problems of implementation.
2. To identify the attitudes of managers about the main barriers to privatization in the Libyan economy, by undertaking a field study of the factories of the LNTC. In addition, the field work includes study sample of NPFs created since 1994.
3. To examine the strengths and weaknesses of the privatization programme in Libya, with special reference to the case study.
4. To provide policy recommendations in relation to future privatization plans in Libya.

1.5 Reasons for Choosing this Topic

The subject of privatization has been an interesting issue in almost all developed and developing countries. The scale and methods of its implementation differ from one country to another. However, not all companies which were previously SOEs are successful. Proponents of privatization argue that there are several reasons for success and failure.

Academic researchers in this field have concentrated on many factors that might lead to the success or failure of privatization programmes, and they have not yet agreed on any definite answers, while government policy-makers are still wrestling with the practical problems of whether and how to implement privatization programme.

Hence, this study focuses on the key factors that influence privatization at the micro and macro levels. Another simple reason for choosing this topic is related to the work and practical experience of the present researcher in the public sector, which should be helpful in making recommendations to policy makers in Libya that could be used as guidance for successful privatization programmes.

1.6 The Selection of the Case Study

The factories of the LNTC were selected as a case study for several reasons. This company represents the first experiment of privatization in Libya dating back to the years 1987-1988 following the Decree no (113) of 1987 issued by the General People's Committee (GPC) for industry. This decree transferred all factories of the LNTC to the ownership of the workforce of the company. Since having been privatized for such a relatively long period of time it would be faire to analyses the extent of success or failure of these factories. Secondly, the textiles industry has already been subject to privatization, and so facts and figures are readily available. Lastly, considering the limited level of technical ability, the selection of the textiles industry is useful for Libya in identifying the problems and the barriers that tend to hamper the development of this industry. In addition, as a mean of competitive analysis, a sample of NPFs have been chosen. All these firms started business as private factories since 1994.

Endnote

[1] State Owned Enterprises (SOEs) are defined as "government-owned or government controlled economic entities that generate the bulk of their revenues from selling goods and services (Haggarty and Shirley, 1997).

[2] There are several reasons why low level of performance were observed. For example, the method implemented was only for managers and workers in these firms; and these firms had not restructured pre-privatization process. For more details on this issue see chapter 6 section 6.2.3.

CHAPTER TWO

LITERATURE REVIEW ON PRIVATIZATION

2.1 Introduction

During the past two decades, the privatization of SOEs has been accepted economic policy for governments of different ideological beliefs. Although the current wave of privatization worldwide was lunched in 1979 in the UK, the economic case for privatization is not new. In *The Wealth of Nations,* Adam Smith (1776) argued that:

> "In every great monarchy in Europe the sale of the crown lands would produce a very large sum of money which, if applied to the payment of the public debts, would deliver from mortgage a much greater revenue than any which those lands have ever afforded to the crown…When the crown lands had become private property, they would, in the course of a few years, become well improved and well cultivated".

Adam Smith postulated that production was the responsibility of individuals, suggesting that these individuals always looked after their own interests by trying to achieve the maximum profits possible, and by doing so they also looked after the interest of the broad society. This liberal economic ideology dominated the world for nearly two centuries until the advent of the Bolshevik revolution in Russia in 1917 which brought socialist principles that were then adopted in a number of countries in Eastern Europe, and the subsequent nationalisation and confiscation of the private ownership gave the state the upper hand in controlling production, distribution and consumption processes (Fadhel, 2004).

On the other hand, Adam Smith suggested that there would be a reduction in the public sector's borrowing requirements and that improvement in efficiency could be expected when ownership was transferred to the private sector. His view considered both macro and micro-economic aspects.

Almost every country is divesting some or all of its SOEs to the private sector in managing and financing activities previously owned and operated by the state. One purpose of privatization is to boost economic performance with consequent relief of the economic burden on the state. As the private sector becomes more important in the process of economic development, and economic performance becomes a priority in planning subsequent economic policies, then privatization becomes even more important. This fact has been highlighted many times over in recent schemes for economic and social change regarding its potential benefits. The fundamental reason of why privatization is due to the fact that a nation that does not work but instead awaits the government to fulfil its ambitions and aspirations will never achieve progress (Hawadana, 2003). Moreover, the idea that privatization constitutes a means to provide the management of the manufacturing company with freedom of decision making and to set its own future goals, using its financial and human resources according to purely economic considerations, gives a strong justification for privatization, as it stresses the professional manager rather than the owner manager.

The purpose of this chapter is to review the various definitions, methods, rationales, and practical experiences of privatization. It also provides a theoretical understanding of how privatization leads to improvements in the performance of privatized enterprises. Moreover, the three traditional theories of privatization are discussed. These are based on the differences between the public and private sectors, and predict that the transfer of ownership from the public to the private sector will lead to economic efficiency. Finally, the rest of this chapter discusses the potential determinants of post-privatization performance.

2.2 The Evolution of the Public Sector

During the history of mankind, the state has always played a pivotal role in the economy, even though this role has varied from one state to another through their different stages of development. However, there have been always persistent worries about state intervention in economic activities. Consequently ideas have emerged calling for the restriction of state intervention and an absolute reliance on free unrestricted markets for the distribution of products, based on prevailing beliefs in the success of private projects. For example, Adam Smith wrote in 1776 that the statesman and the businessman were the most conflicting personalities, for the simple reason that people would become excessively generous with other people's wealth rather than their own wealth. This argument emphasises the importance of private ownership and private management (Fadhel, 2004).

The history of the evolution of the public sector can be traced back to pre-market economic organisations which have been widespread in various parts of the world. These include systems that have dominated the civilised world, and that have been centrally controlled, known in the past and the present as "the authoritarian economy".

These systems were predominantly repressive in nature, ruling people through military power on the pretext of preventing insurgence and disloyalty. Other excuses included eradicating tribal and sectarian conflicts and other matters that might jeopardise the safety and security of the state. These potential dangers tended to tighten state control, enhancing its military machine, and giving it financial and economic powers to assist it in supplying its armies with rations.

Consequently, this gave military authority the right to use prisoners of war in all economic activities including the cultivation of land, and construction, as well as the heavy taxation of occupied territories.

2.3 The Evolution of the Private Sector

The private sector can be defined as a sector which is managed by the knowledge of individuals and the business units involved. The economic activities associated with this sector are usually controlled by the mechanism of the market, which aims at achieving the maximum profit possible (Hatem, 1994).

However, according to Al-Robiai (2004), there two kinds of private sector exist. These are: (i) the organized private sector, which adopts an organised system of accounts for all its activities; and (ii) a disorganised private sector, which does not keep organised accounts, and is usually associated with craft activities.

The market system is the result of slow and gradual social development and a long history of trial and error (Al-Robiai, 2004). Therefore, the market system is as old as mankind, and it came into existence superseding the primitive economy of self-sufficiency. However, the flexibility and vitality of the market arises from its continuous development and adaptation to environmental conditions and technological changes, and the changing tastes for varying forms of market from time to time and from one country to another.

For example, markets in the early times were different from those in the Middle Ages, and also from the markets in Europe during the industrial revolution. Likewise, contemporary markets are different from those in the past century. However, economic history in general is about exchange, after humans had discovered in earlier times, the importance of specialisation and the division of labour. Hence, the market has always been the medium that has assisted the progress and advancement of exchange activities. Moreover, markets and other economic tools, most importantly money, have been the most significant factors that have led to the development and progress of exchange economies (Al-Bilawi, 1998).

However, in the absence of authority, the course of development of the market has not been indicative of chaos and disorganisation. On the contrary it is rather indicative of a common interaction between producers and consumers. This interaction has the advantage of rendering the market an accurate organisation of economic relationships incorporating both the productive and the consuming sides of the society. This influence of the market is achieved at varying levels even in the absence of a higher authority or a vigilant administration. However, the independent behaviour of all economic units, whether productive or consuming, has urged the coordination of their individual decisions achieving a kind of general automatic balance responding to their own interests and benefits, given the fact that every producer or seller is seeking the highest possible price for his item to achieve satisfactory results. By the same token, the buyer or consumer from his side always bids for the lowest price possible. Therefore, this contest between producers and consumers tends to readjust prices to the point where a final balance between supply and demand is established (Al-Robiai, 2004).

Changes in prices usually constitute a good indicator of the future behaviour of producers and consumers as well as the size and quality of the produce in demand. Consequently automatic balance and coordination in decision making will be established between the two parties without the need for a higher authority to dictate its decisions. As a matter of fact, this sort of involuntary balance is dictated by technological progress from the side of producers and by the changing tastes of consumers.

Hence, the market always plays a major role by virtue of its perfect organisation of producer-consumer relationships without the need for the intervention of a higher authority or centrally issued decrees. Moreover, the role of the market is significant balancing economic relationships and in readjusting the behaviour of producers and consumers without any initial intention to organise production or consumption.

It follows that every individual is looking out for his own interests in order to achieve the highest possible income or the highest prices or the best quality, and yet in the meantime in his bid to achieve this he or she always takes the public interest into consideration by focussing on the production of items most in demand by consumers or by encouraging the most capable producers to provide cheap products while excluding incapable ones. This process has been described by Adam Smith as "the invisible hand" where the market is always serving the public interest. In other words, the public interest is always an inherent element with regard to consumers or producers working towards achieving the best results. It seems as if an invisible hand is pushing them towards achieving the public interests.

According to Adam Smith this phenomenon justifies the idea that the state should refrain from economic affairs (Al-Robiai, 2004). The basis and conditions of the market in the economic ideology were initiated by Adam Smith in his book *The Wealth of Nations* first published in 1776. Smith called for the restriction of state intervention in economic activities. He further outlined the role of the state to be limited to the following functions:

(i) Defending the territories from outside invasion.

(ii) Keeping internal security to protect its citizens and their property from other hostile individuals.

(iii) To keep law and order by issuing laws and regulations to organise the administrative and justice affairs of the state.

However, regarding the economy, the market arrangement will be capable of organising all activities including production, distribution and consumption. Moreover, the market has got the power and the efficiency to perform and fairly distribute the potential resources including the ideal use of these resources by the different economic sectors. An evaluation system would be capable of undertaking this role, including the allocation of resources, general budgeting and achieving economic growth. Yet, for the evaluation system to assume its role a competitive market should be available satisfying the two main conditions these are: (i) free competition with regard to product marketing, raw materials and labour markets; (ii) money should be a means for exchange of goods only.

The publication of *The Wealth of Nations* was contemporaneous with the American Revolution in 1776, which was followed by the French Revolution in 1789. Despite the fact that both revolutions had predicted liberty, with a common notion that the way was irreversibly open for democracy, nonetheless the nineteen century came up with calls for pluralism and the intervention of the state. These calls looked with contempt to previous calls for individualism and liberty. Then with the advent of the twenties century, plural regimes such as Fascism, Nazism and Marxism emerged. These regimes led to a belief that liberalism was the legacy of the past, and that it was unlikely to stand the challenge of the modern age (Al-Robiai, 2004).

The severe world depression in 1929 with worldwide recession had highlighted the weaknesses of liberalism, casting doubts on the ideas associated with the theory of the market and the economic neutrality of the state. In 1936 Keynes came up with ideas that were opposed to most of the classical thinking, suggesting that state intervention was a precondition for any attempt to stimulate the economy. These ideas replaced the classical theory that had dominated economics thinking until 1929. Keynes' ideas, refuting the classical thinking, received huge interest in the capitalist states, particularly responding to his calls for state intervention through public expenditure. Hence, these states adopted Keynes' ideas with the aim of overcoming the economic crisis that hit the world in 1929. Those ideas were actually an attempt by Keynes to revamp the liberal system in order to avoid future crisis, allowing the intervention of the state to control spending when necessary. In other words, when the private sector shows signs of incapacity in failing to stimulate the economy, this will give the state a pretext for intervention, expanding the economic activities of the public sector.

State intervention in economic affairs had led to the evolution of the socialist states in Russia and the East-European countries, as well as numerous freedom movements in third world countries that had long suffered from colonial or feudal rule. All this made state intervention in economic affairs inevitable for most of the world depending on the prevailing economic regime. For example, in the Soviet Union and East-European countries, and then later in Western Europe and other developing countries, state intervention became almost absolute. Subsequently, the role of the public sector became more significant at the expense of the private sector, which completely disappeared in the socialist states and played only a marginal role in most developing countries. Yet despite losing ground in the capitalist countries, the private sector still had a role to play.

As a matter of fact, state intervention in the economy and the subsequent expansion of the public sector at the expense of the private sector left most developing countries seeking external loans to achieve development, given their meagre resources and the financial, administrative and organisational problems associated with that expansion. Other problems, however, included the failure of the public sector to cope with state ambitions, the problems associated with foreign loans, budget deficits, and sustaining deficits in the balance of trade and the balance of payments, in addition to the underperformance of the public sector and its failure to deliver in most areas. All this led many governments to reconsider the whole process of state economic intervention, including the possible transfer of a number of projects to the private sector. However, that move was fuelled by the transformation of the rich capitalist states and their advanced executive organisations into international financial institutions.

The liberal ideology that retreated during the 20^{th} century giving way to socialist and totalitarian ideologies started fighting back, gaining ground and extending its reign. This ideology has been initiated by privatization in the context of a major liberal transformation giving the private sector a leading role in the economy.

Privatization, however, emerged as an economic policy and a development programme adopted by some governments in the early eighties. The United Kingdom was the first to consider privatization during the rule of Prime Minister Margaret Thatcher. Thatcher thought of privatization as a means for achieving a better economic growth, because state ownership and its control of major projects would put such projects under the management of a more bureaucratically oriented mentality. This mentality, the argument goes, would not be consistent with the business administration mentality likely to be displayed by the private sector. This is simply because, according to private sector philosophy, the principles of risk and revenue are the main factors that govern business administration (Hasanein, 1993).

Accordingly, the more risky the business the higher will be its prospective revenues. However, this relationship between risk and revenue is likely to trigger the latent innovative powers of businessmen, improving their performance. It will also lead to competition among businessmen transforming the national economy into a dynamic entity spontaneously driven towards development and growth. This driving force is supported by the three elements which are: (i) innovation; (ii) risk; and (iii) competition.

Accordingly the national economy will achieve higher performance for the welfare of the public at large. This performance can be reflected by better service, higher quality products and the direct spontaneous control of production and service economic units through the ownership of some of the shares of these units in order to achieve the noble objective of economic prosperity and the welfare state. Based on these ideas the liberal transformation has taken great steps forward, and the private sector has become more significant in increasing its economic contribution, depending on the measures taken by individual states and the methods adopted in the process of transformation to the private sector.

2.4 The Concept of Privatization

The term "privatization" has been used to express a wide range of economic and social policies in both developed and developing countries. This may partly explain why there is no single definition of the concept, since it means different things to different people in different countries. Privatization has meant a reversal of public policy from the state domination of production to private ownership and operation. In the last two decades, privatization has emerged as a powerful mechanism to reduce the role of the state in economic activity in developing countries. The process has redefined the role of the state from a producer of goods and services to a facilitator of efficient production and provider of basic services to the poor. Privatization is not merely an economic concept; rather it is a more comprehensive and complicated socio-economic and political philosophy. In its simplistic meaning, privatization refers to increasing the role of the private sector and decreasing the involvement of the government in economic activities in particular and in society in general (Awamleh, 2002).

Privatization is the strategy or the process that transfers, totally or partially, an asset or enterprise, which is owned or controlled, either directly or indirectly, by the state to private organizations. It is a process of empowerment that increases people's economic and political participation by creating the opportunity for ownership and a sense of involvement in society. It also involves the release of economic activities from legal and bureaucratic barriers and the encouragement of the free functioning of private enterprises. The underlying intent is to improve industrial performance by increasing the role of market forces (Littlechild, 1994).

In the literature, privatization is defined in different ways. Some authors define privatization narrowly to mean the sale of state owned assets. For example, Hurl (1995) argued that denationalization, deregulation and franchising are all methods of privatization; whereas, the World Bank (1996) defined privatization as "the divestiture by the state of enterprise, land or other assets".

In any case, the privatization of SOEs is a popular policy in advancing the frontiers of capitalism in many developed and developing countries (Vickers and Yarrow, 1988, Bishop et al, 1994). However, there is no standard definition of what constitutes privatization in the literature. Privatization may take a variety of forms that can be based on many factors, for example national socio-economic and political configurations. Therefore, each country may have specific forms of privatization applicable to it. For example, the specific forms which may suit Libya will not necessarily suit other countries.

Clearly, privatization can be defined in many ways ranging from narrow to broad perspectives. As a result, public policy makers can carry out privatization in different ways. Given its complexity, the results of privatization are mixed and rely on both firm-specific considerations and external factors.

Moreover, privatization around the world can be performed via many alternative methods, including both non-ownership and ownership transformation privatization. To be successful, different privatization methods call for different supporting requirements. The following section will cover the most common privatization methods implemented in the developed and developing countries.

2.5 Privatization in Developing Countries

As already mentioned in this chapter, the wave towards privatizing SOEs and introducing the forces of privatisation started in the early 1980s. Many people associate modern privatization programme with Margaret Thatcher's conservative government that came to power in the Great Britain in 1979. The privatization of British telecommunication in 1984 was the first major success, making the policy ideologically popular around the world.

However, Megginson and Netter (2001) recognized the Adenauer government in the Federal Republic of Germany as the first to launch a large-scale "denationalization" programme of the postwar era in 1961 by selling in a public share offering a majority stake in Volkswagen.

The last two decades have seen the western world spearheading the drive toward privatization and free market economy. This phenomenon arose and spread mainly from two concurrent themes-renewed enthusiasm for private enterprise after years of state dictated production activity and the burgeoning deficits in nations resulting from the loss-making public enterprises (Donahue, 1989). The private ownership of the free market economy has credited with tremendous vitality resulting from the incentive to innovate and become efficient (Shleifer, 1998). Since then, privatization has become a major economic phenomenon throughout the world; over 80 countries have active privatization programmes (Molz, 1990). Moreover, the fall of communism has prompted the former soviet republics and the East European nations to embrace market forces and privatize its SOEs. The other developing countries have also adopted privatization but the progress has been much slower and has not so far really achieved their economic and financial objectives (El-Naggar, 1989).

In the developing countries, these programmes have been actively promoted by international organizations, notably the United States Agency for International Development (USAID) and the World Bank. Therefore, privatization rapidly became a priority task for the governments of many developing countries. The sales of public enterprises in the developing countries began in the mid-1980s as response to the problem of the generally poor financial and economic performance of public enterprises (Cook et al, 1998). The total proceeds in the developing countries during the period 1990-1998 was 271.744 billion USD (Privatization Database, 2000). The last decade witnessed the most dramatic changes in private enterprise in the developing world. The average share of public enterprise in the national output has declined from 16% of the GDP to about 5% at present (Megginson, 2001).

The cumulative proceeds of the sale of SOEs worldwide reached $1 trillion during 1999. In the developed countries, privatization has generated about 600 billion since 1990 or about 2.7% of the area's GDP, with the figure rising to 27% in some countries. Public offerings have been the dominant method in developed countries while direct sales 75% and pubic offers contributed to most of the sales in developing countries. Developed countries accounted for two-thirds of the global privatization activity though privatization has been pursued vigorously in the developing countries.

In the developing countries, the private sector has participated in a variety of new infrastructure projects besides investing in direct sale of public enterprises. This is mainly in sectors (telecom, energy, water) where competition in the market is either not technically possible or socially efficient.

During the period 1990-1998, $496.2 billion has been invested by the private sector in developing countries in new projects in telecommunications, energy, transport, and water and sanitation (Roger, 1999). The countries differ widely in terms of wealth, population, political regime, and degree of industrialization. Table 2.1 showed figures of privatization proceeds in developing countries during 1995-1998.

Table 2.1 Privatization proceeds during 1995-1998

(Millions of U.S Dollar)

Year	East Asia	Latin America the Caribbean	Europe and Central Asia	Middle East and North Africa	South Asia	Sub-Saharan Africa	Total
1995	5,410	4,616	9,872	746	916	473	21,901
1996	2,680	14,142	5,466	1,478	899	745	25,399
1997	10,385	33,897	16,537	1,612	1,794	2,348	66,573
1998	1,091	37,685	8,002	1,001	174	1,356	49,309

Source: *World Bank Privatization Database.*

Privatization was expected to the panacea for all ills, but it has turned out to be a much more complex process than anticipated. In the majority of developing countries privatization processes have not been succeeded and achieved their economic and financial objectives. According to study by Al-Mugairbi (2003), there are three fundamental reasons behind that, these are: (1) the existence in many constraints preventing the satisfactory development of these programmes; (2) the ambiguous of governments towards privatization operations; and (3) insufficient awareness of their close links with other structural reforms.

Others such as Kikeri and Shirley (1994) stress on two main sets of condition for the success of privatization which are country and market condition, market condition for example, open trade regime, staple and predictable environment for investment and a well developed institutional and regulatory capacity. Whereas, market condition are also have to be considered an important determinant of successful privatization. Therefore, the question arises: if the economic efficiency benefits of privatization have been so widely touted in the initial phase of privatization, why are countries so hesitant about privatization? Why is the progress of privatization delayed? What does the empirical evidence indicate about the pace of privatization? It would appear that governments would be much aggressive about adopting privatization than has been witnessed around the world. Clearly, there are factors than economic efficiency guiding their decision-making. Generally speaking, privatization is a complex phenomenon that would take time in the best of circumstances.

2.6 Privatization Methods

The 1970s witnessed a huge increase in the number of public sector companies that existed in all economic areas. This policy was initiated as a strategy adopted by most developing countries in the 1960s, mainly based on the complete reliance on the public sector for the development process. However, these experiments resulted in poor performance and the impotence of most of the companies. This might be due to many reasons, such as the failure of these companies to comply with the financial restrictions imposed on them as well as their multitude of objectives, especially social objectives including the creation of jobs, the production of goods and other cheap sponsored services. Consequently, these companies suffered heavy losses, which rendered them a burden on the state budget, and therefore they became a stumbling block in the process of economic development.

However, in the aftermath of the huge pressures endured by a number of economies in the developing countries in the 1980s, where debt crisis was followed by massive cuts in foreign donations, these countries were forced to undertake programmes involving the structural reform of their economies in order to restrict the effects of economic instability to the minimum. This led to a change in existing policies. Consequently, contractive policies such as cutting spending and increasing earnings came to the force. Thus, privatization became important in these countries. Therefore, the main purposes of privatization for countries suffering from economic instability would be to reduce the financial burden imposed on the state by unsuccessful public sector companies, and to improve economic performance through more dependence on the private sector to lead the process of economic development. However, the priorities of privatization at the national level vary greatly. For Eastern European countries, for instance, privatization might be understood as a transformation from a centrally planned economy to the market economy, whereas for Latin American countries privatization could be a means for stabilising the economy as well as reducing foreign debt (Viravan, 1991).

Yet, for other countries such as Great Britain and France, the aim of privatization would be to create a broader base for the private ownership of economic activities at the expense of the state ownership of these activities. Privatization is based on the assumption that the transfer of the ownership of utilities from the public to the private sector would necessarily improve performance and increase the efficiency of these utilities, which would imply that the private sector would be more efficient than the public sector.

However, the debate on this issue is still going on. Some say that the bias of ownership might eventually affect the efficiency of privatised companies, whereas others would argue that ownership per se might affect efficiency (Hanke, 1987). In addition, others argue that competition and organisation might be more important for economic performance than ownership (Vickers and Yarrow, 1988).

There exist different methods for privatization. This choice may depend on a number of factors, the most important of which are: the objectives of privatization, the size of utilities to be privatised, the level of maturity of the stock exchange, and the quality of investors and buyers. Privatization can be completed by one of two main methods; those that completely terminate state ownership, transferring all utilities to the private sector, and methods that do not terminate all state ownership (partial privatization).

The following part of this chapter reviews and analyses the most important methods used for privatization, highlighting the advantages and disadvantages of each method in the light of the experience of developing countries, including Arab countries.

The first section discusses issues pertaining to privatization methods. The second section then considers the most important methods for privatization that do not terminate state ownership, namely management privatization (although it should be noted that other methods exist under this category, such as contract and partnership projects). Although this method does not imply the transfer of ownership, it is discussed here as a transitional stage towards total privatization.

Then, subsequent sections discuss the most important methods for the termination of state ownership. These methods include direct selling, the selling of shares in the stock exchange, selling to the management and workforce, and the voucher system. Furthermore, liquidation methods entail the closure of a public sector company by selling its assets rather than selling the company as an entity. The procedures of direct selling to investors are likely to apply in this case.

2.6.1 General Aspects of Privatization Methods

Governments have five objectives when engaging in the privatization process. These are as follows:

(i) To improve economic performance through the mechanisms of a free market and competition.

(ii) To relieve the state of the financial burden imposed by unsuccessful SOEs, thus saving money for funding other activities.

(iii) To expand the role of the private sector to render it more reliable in the process of economic development.

(iv) To develop local stock exchange.

(v) To create a broader base for private ownership.

Some of these aims appear to be contradictory, which might lead to the failure of the privatization process in cases where the state ventures to achieve them all simultaneously. For example, boosting efficiency and improving the performance of a private company may sometimes imply the selling of the bulk of its shares to a local or foreign strategic investor.

On the other hand, if the state is intending to create a broader base for ownership, in this case it needs to distribute shares among as many buyers as possible. Therefore, the choice of the appropriate method for privatization that will assist in achieving the goals and without causing any conflict between these goals is a prerequisite for the success of the process. However, the state needs to make a clear distinction between the various sectors and the status of the company while planning privatization programmes. As to which companies should be privatised first, there is no perfect strategy to be followed in all circumstances. For example, some Latin American and African states, and even Britain, started by privatising small and medium sized companies first (Dahel and Elhag, 1998). These companies would not need restructuring prior to the selling process. Moreover, the selling of such companies would pave the way for selling bigger companies. The Latin American experiment has validated the possibility of selling small companies in the manufacturing sector earlier in the privatization process. This will be faster and avoids any major complexities. In contrast, the selling of big companies and banks and other public utilities may be a complicated process, which may require certain legal conditions to be satisfied prior to the selling process (Edwards, 1994).

Alternatively, other countries may opt to begin with the privatization of big companies in order to show the credibility and seriousness of the state and its commitment to the privatization programme (Kikeri et al, 1994). Most importantly privatization needs to be clear-cut in order to succeed, as this will render it more credible and will create the required trust among the parties involved, such as political parties, company managements and workforces, consumers and investors.

Otherwise, doubts which may be cast on the selling process may result in the collapse of the whole privatization programme.

2.6.2 Privatization of Management

This aims at boosting the efficiency of SOEs by improving their management through the introduction of management techniques used by the private sector. The different form of management privatization, such as management contracts, leases and concessions, might be either an end goal or a transitional stage in the termination of state ownership. Theses methods will be discussed as follows:

- **Management Contracts**

Management contracts are an agreement between a public sector organisation and a private sector company in which the latter will undertake management responsibilities in the former. Here the private company will run the public sector company without having the right of ownership to that company. However, the private company will impose charges for its services, with the possibility that these charges are likely to be linked to profits and performance. On the other hand, the public organisation will still be responsible for operational and investment costs. This method is normally used when the government intends to revive unsuccessful companies by introducing management techniques used by the private sector so as to render the company more valuable when put on sale. Experiments in many countries have proved management contracts to be successful for many economic sectors. In Lebanon, for example, management contract method has been used for three interrelated projects: rubbish collection, incineration and recycling (Sadq, 1995).

Similarly, in Guinea Bissau this method was used for the electrical power sector in 1986, when the state asked for technical assistance from France for the development of this sector. A contract was made with the Department of Electric Power in France to assume the management of this sector, and this contract was renewed in 1991. The outcome was an increase in productivity and better administrative and financial performance (Kessides, 1993).

The main advantage of management contracts from the state's point of view is that they give the state the right to retain ownership of the company. Moreover, they enable the state to sort out problems of mismanagement through the employment of highly skilled managers, and at the same time keep control over those managers by the enforcement of the terms of the contract. The main disadvantage of management contracts lies with the duplication of the private and public ownership of the company, where the state and not the contractor has to take all the risk (Kikeri et al, 1994). Furthermore, the contractor will not be motivated to improve performance as long as the contract offers fixed charges irrespective of performance. This problem can be solved by partially linking charges with production, sales and the profits made by the company.

- **Leasing**

Leasing is a contract agreement between the utility owner (the public sector) and a private company. The contract gives the latter the right of using the utility for profit in a certain period of time in return for a lease charge. As opposed to management contracts, the private company has to take all of the risks. This will be the main incentive for cutting down costs and for maintaining the utility value.

However, the state still bears the responsibility for investment as well as the payment of debts. The period of lease may vary from 6 to 10 years, and this method has been widely used by a number of African and Asian countries in sectors such as water supply, transport and mining, which have struggled to attract investment (Hegstad and Newport, 1987).

Thailand in 1985, for example, made some of its passenger railway services available for lease. By the year 1990 the experiment was already a success, and the new railway services became very popular, generating huge profits (Kessides, 1993). The Ivory Coast is another example, where the electrical power sector had suffered severe deterioration in the 1980s. Then in 1990, following the introduction of major reforms, this sector was taken over by two French companies and local investors via lease contracts. Earnings dramatically improved in the first eighteen months of the contract. Maintenance standards likewise improved following the introduction of modern technologies, which led to increases in electrical power and the development of better services (Kessides, 1993).

The main advantage of leasing is that it cuts down the costs of running the utility while it is still in state ownership. Also the state gains annual earnings without taking any risks, while also saving on sponsorship funds or any other financial commitments. Leasing also provides opportunities for the introduction of technical and managerial skills that will allow the use of the utility in a more efficient manner. However, the main problem with leasing is the fact that since the utility is state owned, this will make the leasing company improve the utility only to the extent that will allow it to generate the maximum profits and not more within the lease duration.

- ## Concessions

A concession contract implies that the state gives the private company the right to run and develop the utility. In this sense, concession contracts contain all the elements of leasing in addition to the capital and investment costs which lie within the concessionaire's duties. The utility is usually returned to public sector ownership after the expiry of the concession contract, which may extend from 15 to 30 years depending on the life expectancy of the investment. The running and investment costs as well as the debts will be likely to determine the earnings of the concessionaire. This method has been successful in countries such as Argentina, where it has been used in the railway sector (Kessides, 1993). Internationally, concession contracts in the area of infrastructure represented 80% of the total concession contracts for the period 1988-1993 (Sader, 1995).

The main advantage of the concession method lies in the fact that the concessionaire remains responsible for all capital and investment costs, which will tend to relieve the state of part of its financial burden. Nevertheless, for the same reason, it would be very difficult for many countries to find suitable investors, given, the huge costs of this kind of contract. A special kind of concession contract known as Build-Operate-Transfer (BOT) is used by the private sector to develop new infrastructure schemes. The main idea behind this kind of concession is that a private company undertakes the task of funding, establishing and operating a new infrastructure project, such as electrical power, water and irrigation or transport, for a certain period of time (concession period) at the end of which the utility will be handed over to the state.

However, during the concession period the state will undertake the duties of organisation and supervision. Different forms of this type of concession exist such as Build-Own-Operate (BOO), Build-Own-Operate-Transfer (BOOT), Build-Transfer-Operate (BTO) etc (Banerjee and Munger, 2004). Hence, the selection of a suitable form of concession depends on the circumstances of the project in question, such as the duration and type of potential investors (local, foreign, financial institutions, etc), as well as the risks involved.

Generally speaking, to ensure the success of management privatization in its all forms, contracts should clearly specify the nature of services to be provided by the contractor as well as giving a clear description of the duties and the responsibilities of each of the parties involved during the duration of the contract. Consequently this implies that the state should not interfere with company management, and instead should limit its duties to calling the company to account according to the terms and conditions of the contract.

2.6.3 Direct Selling

Internationally, direct selling is the most popular form of privatization method. This method represented 80% of the total transactions between 1988 and 1993, generating an equivalent of 58% of the total earnings (Sader, 1995), and also represented 86% of total transactions in 1986 (World Bank, 1996). Direct selling may take various forms, such as tenders, public auctions or selling to strategic investors. The common element in all these forms is the absence of middlemen as brokers between the two parties.

The tender method enables the state to compare different offers and choose the highest bidder. This method is notable for its clarity, as it uses a straightforward mechanism and the tender is open to all interested investors to take part in the competition for buying a company, on condition that they meet the required specifications set by the state.

However, critics of this method point out that it is slow, procedures may take a long time, and high administrative costs are involved. Nonetheless, this method has been used by a number of East European states in the privatization of shops and restaurants. Also it has been used by Arab countries such as Morocco in the privatization of a number of hotels (Dahel and Elhag, 1998). On the other hand, the public auction method also involves a high level of clarity. This method is fast and simple, and enables the state to generate massive earnings from privatization. Its main drawback is that it will not allow the state to set its own terms and conditions for selling. Therefore, to secure a successful auction, the state would have to make every effort to persuade a sufficient number of competitors to take part, besides making sure that those competitors will not conspire to disrupt the bidding process.

In ex-Czechoslovakia, for instance, the privatization of small businesses through public auctions was acknowledged for its efficient and fast procedures. The whole programme was completed within two years, generating total earnings of around $1.6 billion[1].

The selling process will then take place through negotiations which will allow the state to impose its terms and conditions on the potential investors. However, direct selling to a strategic investor through negotiations is not an easy task, and it might be associated with various difficulties for developing countries, including the following:

1. With regard to the size of some of the companies to be privatised, local investors might not be able to secure the required capital. In this case, the state is likely to go for one of two options: either to sell the company to eligible foreign investors or, in case of strong opposition to selling to foreign investors, to sell the company by instalments based on estimates of future profits. Different forms of the latter option have been used in Estonia, Hungary and Poland (Grey, 1996, was quoted in Dahel and Elhag, 1998).
2. Privatization by direct selling and its consequent distribution of ownership might appear to be an unfair process due to its lack of clarity, and because it will not allow the wider public to take part.
3. Direct selling might be a slow and costly process, as it involves tedious negations every time a company is put on sale. This method also requires investors to be closely monitored so as to make sure that they deliver on their promises and commit themselves to the terms and conditions of the contract.

However, among the Arab countries, Morocco had used three methods for the privatization of hotels by the end of 1996. Around 44% of the hotels were sold through tenders which generated 26% of total earnings, whereas the relative shares of the total earnings for negotiated tenders and direct negotiations were estimated at 44% and 30% of total earnings respectively (El-Ftouh, 1997).

The state of Kuwait, on the other hand, put on sale 40 million shares of the SOEs for shipbuilding and maintenance. This represented about 30% of the total shares sold through public auctioneering in the stock exchange at an initial price of 206 fils per share (El-Ftouh, 1997). The sale was broken up into four divisions; every division involving the selling of 10 million shares. This gave as many as possible local investors the chance to take part and consequently maximise share prices, which in turn maximised state earnings. Jordan is an example of one of the first states to try an experiment in strategic partnership (Sader, 1995). In the second half of 1996, Jordan put on sale around 20% of state shares in the cement manufacturing company, which is 49.5% state owned. In the selling process Jordan targeted certain international companies which specialised in the cement industry in order to win a strategic partner for the purposes of developing the company technically, improving quality, boosting production, and exploring new markets.

2.6.4 Public Share Offerings in the Stock Exchange

This method is appropriate for big companies with good financial status. It implies putting the shares of the company on sale to the public, usually for a fixed price. A small sample of shares may be put on sale as an experiment first, as was the case with Egypt, Tunisia and Morocco. In the Egyptian example, 10% of the shares of 314 companies were put on sale in 1992, as an experiment to be implemented on a wider scale if it was successful. In fact that was exactly what happened. The experiment proved to be effective and people were persuaded to buy shares (Dahel and Elhag, 1998). This encouraged the government to put more companies on sale, giving close consideration to their status.

The Egyptian government also encouraged small investors to buy, in order to create a broader base for private ownership to include as many citizens as possible. The government also concluded that the transfer of ownership should be completed gradually; giving many guarantees to new owners and most importantly banning monopoly. The government also took certain measures to protect the workforces of the privatised companies, including the allocation of 10% of the company's shares to the workforce, rendering it a partner (Dahel and Elhag, 1998). In the aftermath of the success of this experiment the Egyptian government put the shares of 15 companies in the manufacturing, food and engineering industries up for sale in 1996, whereby the ownership of these companies was fully transferred to Egyptian, Arab and foreign investors. The terms and conditions of the ownership of these companies involved an increase in their market activities and the sustenance of the nature and quality of the activities, the allocation of part of their products for export and safeguards to the rights of the workforce without government intervention.

The choice of those companies was based on the fact that they were engaged in activities similar to those in the private sector and their production would not affect national strategic security. The privatization of the companies was expected to generate around 15 thousand job opportunities.

Sometimes the state might sell its shares in some companies in circulation, as is the case with the privatization programme executed by Kuwait since 1994. Kuwait is one of the most significant Arab countries in the privatization of the public sector shares through the stock exchange, whereby the selling process is restricted only by market conditions and the interests of investors.

However, the main aim of the privatization process was to create a broader base for ownership that would assist the development of the stock exchange. The local investment created by this programme was estimated at $1.65 billion in the form of state shares sold by the end of 1996 (Dahel and Elhag, 1998). Around $198 million of this was generated by the direct selling of state shares in the stock exchange, and the rest through other processes such as public offerings and underwriting.

This method is highly regarded for its clear procedures, as the selling process is advertised and the all-financial bills of the company will be revealed according to the terms and conditions of the selling procedures in the stock exchange. To reduce risks, the state can sell its shares by general underwriting or otherwise through an entrepreneur, even though this might be costly. Also, the state can put shares on sale in both local and international markets.

The main advantage of the method of selling shares in the stock exchange, however, is that it will tend to create a broader base for private ownership, providing that the state imposes restrictions to limit the shares to be bought by any one investor. Moreover, this method will most likely contribute to the development of local markets, as was the case with some Arab and Latin American countries (Dasoki, 1995). On the other hand, selling shares in local and international markets is deemed to be the most important privatization method, representing 12% of all privatization methods used, and generating around 39% of total earnings between 1998 and 1993 (Sader, 1995). Also, these figures indicate the high average value of privatizations when sold in the stock exchange.

The size of the market compared to the volume of shares on offer is likely to determine the success of this method of selling shares in the stock exchange. Consequently, smaller markets are likely to have negative effects on share prices. However, in case of small markets the shares could be sold in small portions one at a time (Sadq, 1995). This is what many developing countries do where big markets do not exist, such as in Arab countries like Egypt.

2.6.5 Management and Employees Buy-Out (MEBO)

This method represents a sort of internal privatization; the ownership of the company may be wholly or partially transferred to its workforce and management. One of its advantages is popular support, in that the government will not need to negotiate the future of the workforce as this issue will be resolved by them together with management[2]. Secondly this method is ideal for the privatization of companies that are difficult to sell by other methods. A third point is that selling by this method will be a great incentive to boost production at the minimum cost, because it will allow ends to be met for both workforce and management. A fourth point is that this method will constitute an effective tool for the creation of a broader base for ownership. This method has been used in a number of East European countries, and in Chile, and even in Britain.

Despite the above advantages, selling to the workforce and management has inherent defects. One of its drawbacks is that it will not seem fair in cases where it is applied indiscriminately to companies; that is, without distinctions made between successful and unsuccessful companies. In this case the managements and workforces of successful companies will have an advantage over others, whose suffering may increase. Moreover, giving the priority to the workforce and management will play down the role of competition as a major driving force in the process of privatization, due to its exclusion of other investors from outside the company. This will eventually result in the devaluation of the company, which will multiply the state's losses. Other drawbacks of the method include the fact that the new owners will be financially incapable of introducing new technologies and management skills in order to improve or boost production. Hence, for this reason most privatization processes by this method have so far concentrated on small companies, which mainly depend on manpower for their production processes[3].

The first major privatization of this type was in the United Kingdom with the sale of the National Freight Corporation in 1982 to a consortium of existing and retired employees and four banks (Berg, A. and Berg, E. 1997). This method was also used in Chile during the 1980s for the purpose of creating a broader base for private ownership, where 35% of the workforce in the public sector took part in buying shares, whereby the government gave priority to the workforce in buying these shares (Nankani, 1990). However, to restrict monopoly the government had to introduce legislation that would not allow an individual or an organised group of individuals to buy more than 20% of the shares of the company in question. Also, to encourage them to buy shares, members of the workforce were given shares in exchange for their pension schemes, whereby these schemes were used as a guarantee for borrowing money from the government authority overseeing privatization at lower interest rates then the current market rates. Moreover, the authority had committed itself to buy back the shares from members of the workforce if they were not satisfied with the return on these shares.

In Britain the state privatised national buses and the shipbuilding companies, after having created and developed a system that would link the fixed prices to the auction prices, whereby prices were carefully chosen to be attractive for the purpose of encouraging what they called "peoples' capitalism" (Vuylsteke, 1988). However, the main problem was that young investors would tend to sell their shares for profit once the markets were open for them. To overcome this problem, and in order to persuade them to keep their shares, the government decided that after a certain period of time (normally five years), the original shareholder would be rewarded with a number of free shares (one for every ten shares) provided that he was still the original shareholder. The rest of the shares were then put on sale to big investors.

2.6.6 Mass Privatization through Voucher Distribution

Privatization through the voucher system is based on the quick transfer of a large group of public sector utilities to the ownership of a wider group of citizens. Hence this process implies the mass privatization of companies instead of dealing with them separately. The vouchers are usually issued in the form of certificates transferable to shares in public sector companies through public offerings. This method has been widely used mainly in transition economies, namely in Russia, the Czech and Slovak Republics, Lithuania and Poland, with slight variations in each case (Lieberman et al, 1995).

In the former Czechoslovakia, for example, the first stage of privatization through the voucher method resulted in the selling of 1491 small utilities in 1992 (Hyclak and King, 1994). However, at the end of the second stage at the beginning of 1995, 80% of the utilities of the big companies were also privatised (Borish and Noel, 1996).

The mechanism of this method starts with the publication of a list of the group of companies to be privatised, including some information with regard to their financial performance, their book value, the size of workforce, debts, etc. Every eligible citizen has the right to obtain vouchers to allow him to take part in the public offering and bid for the companies to be privatised. In most cases the vouchers are free of charge, but are sometimes obtained for a minimum charge to cover administrative costs (Lopeze-Calva, 1998).

The vouchers can be transferred directly to shares in the company through the auction, or otherwise can be invested in one of the privatization investment funds which have emerged as independent entities during the privatization process, especially in Central and Eastern European countries. In some countries, however, such as Russia and the Czech and Slovak Republics, voucher holders can use them to buy shares in privatised companies, whereas in other countries such as Poland the vouchers are used for buying certificates issued by investment funds instead of buying shares directly (Dahel and Elhag, 1998).

The main purpose of the voucher method has been to establish a market economy through the privatization of public sector companies as quickly as possible.

According to Lieberman et al (1995) other objectives include: (i) political, to give as many citizens as possible the opportunity to take part in the process of transformation to the market economy; (ii) social, the distribution of the ownership of utilities among as many citizens as is possible; and (iii) economic, to enhance market powers as well as the environment for economic competition.

The main advantage of mass privatization is that it tends to address the potential problems that might face the state when selling public sector companies. These problems are, in essence, the shortage in local capital to buy shares, and the vouchers are used for this purpose. This is one of the main barriers facing privatization via the auctioneering system in economies passing through a transitional state. Furthermore this method is unique for its fairness, as it gives every citizen the opportunity to buy vouchers, and therefore the selling process will not be limited to just a few investors. However, another important disadvantage of this method is that it imposes obstacles to the attraction of foreign investment and the transmission of financial, technical, and managerial expertise (Lopeze-Calva, 1998).

The main problem with the voucher method is that it will not per se lead to improvement in economic performance. This is for the simple reason that the distribution of ownership among a great number of investors will hamper efforts to improve performance, especially when the company is struggling in terms of the necessary capital and the right skills, which are essential elements in the market economy.

In summary, experiments in privatization issues have shown that a number of methods are available. Yet, every method has disadvantages as well as advantages. Therefore, the choice of method is likely to depend on a number of elements, the most important of which are; the purpose of privatization, the size and activities of the companies to be privatised as well as their financial status, the legal framework, the maturity of the stock exchange and the quality of investors and buyers. Regarding the variations in these elements within the different methods, the state might opt for more than one method. This might be due to the difficulty in judging and comparing some of the elements, such as the objectives, or the size of the companies and their financial status. In other words, a method might be favourable in particular circumstances, and yet it might not be favourable in all circumstances.

2.7 Theories of Privatization

A commonplace observation is that public enterprises are inefficient because they address the objectives of politicians rather than maximizing efficiency (CooK and Uchida, 2003; and Boycko et al, 1996). In particular, politicians are interested in maintaining excess levels of employments to please their constituencies. One of the main reasons for privatization is to produce high quality goods and services at lower cost (Debande and Friebel, 2003; Kikeri and Nellis, 2004). According to Sappington and Stiglitz (1987), privatization does not matter when complete contracts can be written. In addition, Sheshinski and Lopez-Calva (1998) and Schmitz (1996) argued that the weak commitment of benevolent governments, the monopoly status of SOEs, and informational asymmetries are among the causes for bad managerial incentives under state ownership.

Three main theories have contributed to knowledge about privatization. These theories explain why private enterprises are more efficient than public enterprises, and are examined below.

2.7.1 Property Rights Theory

The central idea in property rights theory is based on the incentive systems that are inherent in private enterprise. Property rights tend to influence incentives and the behaviour of individual decision making units[4]. The performance of private firms can be superior even if public and private enterprises are operating in the same circumstances in terms of profitability (Sheshinski and Lopez-Calva, 1998). This result arises from the ownership effect of private enterprises. Property rights theorists predict that public ownership is less efficient than private ownership (Mckean 1972, Furuboth and Pejovich, 1972).

This argument based on three factors, namely ownership specialization, risk bearing, and transferability of ownership on incentive and monitoring systems that result in different factor combinations and hence different outputs. In private enterprises property rights are easily transferable while in public enterprises the owner cannot easily transfer property rights. Transferability of property rights implies that the costs and rewards of economic activities accrue more directly to the individual responsible for the property rights and generate comparative advantages effects by creating specialization in ownership in activities where owners find their own valued use as an input (Davies, 1971).

In the case of private ownership, rewards and costs are more directly related to each person responsible for the risk. Public ownership results in lower risk bearing and specialization among owners.

Within property rights theory, differences in the incentive structure in public and private enterprises also explain their relative efficiency (Furuboth and Pejovich, 1972; and Mckean, 1972). Private owners, in contrast to situation in the public sector, face incentives that make it desirable to monitor the behaviour of managers and employees. This kind of monitoring encourages private managers to be more responsible and to not engage in behaviour that is inconsistent with the maximization of the owners' wealth (Hanke, 1987).

The superiority of private ownership over government ownership in achieving efficiency can be classified into five categories: (1) focused objectives on profit; (2) flexible implementation; (3) incentive scheme for employees; (4) budget constraints; and (5) external control.

In summary, the general conclusion from property rights theory is that the more attenuated property rights are, the lower production efficiency will be in the enterprise, because such attenuation weakens the rewards and penalties systems that are necessary for cost minimizing behaviour[5]. Consequently, the theory holds that private enterprises will be more productively efficient than public enterprises because the latter are protected from external control, such as takeovers and merges. We can therefore hypothesize that privatization improves rewards and penalties systems, which will lead to the improved performance of privatized enterprises.

2.7.2 Principal Agent Theory

Principal-agent theory is based on the information asymmetries of the public enterprise and the presence of bankruptcy/takeover or shareholder control that make a private enterprise produce at efficient levels. The environment in which the private enterprise operates provides competitive pressures that lead to efficiency. Agency arises when a principal, such as a shareholder, delegates decisions over the use of their property rights to agents such as managers. The agency problem arises when there is separation of ownership from control of the enterprise, on the assumption that owners (shareholders) and managers do not pursue the same objectives. The manager may not act in the interests of the owner and such an agency problem will have a negative impact on enterprise performance (Pivovarsky, 2001).

The principal wants to induce the agent to act in the principal's interest, but does not have full information about the situation and the behaviour of the agent (Vickers and Yarrow, 1988). This creates a monitoring problem and prevents the principal from successfully communicating to the agent the right course of action. The non-observability of the agent's actions also creates problems for the principal in determining the right incentive structure for the agent to act in a way that maximizes the principal's objective. Principal-agent theory seeks to determine an optimal incentive scheme for the principal to lay down for agents, given the existence of information problems[6].

The significant problems that public enterprises face relate to information, incentives, and commitment. Information asymmetry arises because the agents have different sets of information and agents will hold on to exclusive information so as to improve their position at the expense of others. Information asymmetry results in principals facing a monitoring problem, as they cannot observe the efforts of their agents (Strong and Waterson, 1987).

Information asymmetry leads to adverse selection and moral hazard problems but the most efficient incentive systems for solving these problems are different for the private and public sector, leading to differences in performance levels. Both public and private enterprises face ex-ante costs resulting from adverse selection and ex-post costs resulting from moral hazards, both of which will increase agency costs. In this situation, the principal has to design an optimal scheme for the agent such that the agent acts in his principal's best interests. This would include optimal contractual agreements (incentive contracts) and monitoring devices (information constraints).

Vickers and Yarrow (1988), Bos (1991), and Bos and Peters (1991) apply principal-agent theory to cases of privatization. In a public firm the government operates as a principal while in a private firm the shareholders are the principals with managers as agents in both cases. Principal-agent theory suggests that principals and agents under private ownership are better informed than under public ownership. Moreover, managerial effort is likely to be higher, partly due to the profit incentive and partly because of more efficient monitoring. In contrast managers of SOEs are selected for their ability to get along with politicians, address political concern and lobby for assistance whereas managers of private firms are selected for their ability to run the firms efficiently (Barberis et al, 1995).

The change in ownership from the public to private sector has at least two effects: a change in the objective from a weighted welfare function to profit maximization; and a change in the incentive structure by linking reward to the level of performance under private ownership. This shift towards profit maximization may imply higher prices, thus foregoing allocative efficiency, but there may be increases in operational or productive efficiency. Agency problems exist in both public and private sectors. Utility maximizing bureaucrats manage SOEs, and private enterprises are managed by profit maximizing managers. In these cases, there are differences in the principal's objectives and in social welfare maximization (Shapiro and Willing, 1990; Vickers and Yarrow, 1991). The question arises of whether government objectives are auctioned off to the private sector in an ideal action system. Sappington and Stiglitz (1987) laid out the conditions under which the market can do as well as a benevolent government. The other problem relates to the fact that government commitment to enforce contracts is absent in the case of public enterprises.

Generally, in contracts between private organizations, the government acts as a third party to ensure enforcement. But in the case of contracts between government and public enterprises, there is no commitment, as there is no such third party.

Yarrow (1986) stressed the importance of the evaluation of privatization in the context of market structure and competition, and the regulatory policy followed, arguing that the market for corporate control is highly imperfect and, as a result, there exists incentive failure in monitoring enterprises. In summary, privatization solves the principal-agent problem and increases efficiency by erecting an informational barrier between public managers and ministers.

2.7.3 Public Choice Theory

Public choice theorists hold that politicians and state bureaucrats are self-utility maximizes rather than public interest maximizes or the will of people. This view is associated, among others, such as Niskanen (1971); and Buchanan et al, (1980). Government failure as a result of self-interested individuals has been felt strongly in SOEs. The managers of public firms are less constrained by market considerations, and find it easier to obtain subsidies and mask bad management under the guise of fulfilling other 'social' goals, especially in some developing countries[7].

Empirical evidence demonstrate that public enterprises are highly inefficient and that this inefficiency is a result of political interference noticeable in excess labour, excess wages (higher than market wages), imperfect input costs, misguided marketing strategies, and prices being lower than marginal costs (Donahue, 1989; and Gupta, 2005). Another argument is that politicians care about the votes of the people whose jobs are in danger, and hence maximize employment. Due to asymmetric information between bureaucrats and the public, in the sense that bureaucrats tend to possess more information than taxpayers about the consequences of budgetary changes, taxpayers' monitoring of spending is inhibited and unnecessarily sub-optimal levels of manpower are created and sustained. The effectiveness of government intervention is based on the assumption that the government behaves as a socially benevolent guardian and that there is no information cost in identifying efficient policy outcomes (Krueger, 1993). Another criticism against the social benevolence argument relates to a number of developing economies where policies were imposed as a result of their development strategy (El-Naggar, 1989).

This left bureaucrats with a lot of discretion to effect private economic activity through their control over the dispensing of permits and licenses. This phenomenon, called rent seeking, has been rampant in the management of public enterprises. The social loss as a result of rent seeking can be measured in terms of lobbying efforts, efforts to get close to decision-making bureaucrats, and making plans to move in/out of the affected activity (Buchanan et al, 1980). Privatization therefore emerged as an alternative to the government provision of goods and services in the early 1980s. The neoclassical counterrevolution emphasized government failure in the provision of goods. The solution was to free markets where the state would facilitate production, in terms of establishing and monitoring institutions yet be a minimalist state.

Privatization emphasizes the role of a state as a third party in a contractual arrangement between private parties. The case for privatization has been strengthened by the importance of the quality of contracting and regulation, more effective competition, and more appreciation of the innovative potential of entrepreneurial firms (Shleifer, 1998).

2.8 The Potential Economic Impacts of Privatization

Persuading the private sector to take part in public schemes through privatization is a temporary step that will eventually lead to the maximum use of the resources available, improvements in the quality of goods and services and boosts to production in privatised schemes. The public sector is always blamed for the misuse of resources. This may stem from the fact that decision makers in the public sector tend to misuse resources through high production costs (Cook and Uchida, 2003).

These high costs may result from excessive use of raw materials and the use of unnecessarily large workforces, which will affect profits. The public sector, and especially its workforce, is also blamed for low production, which is a direct result of weak motivational rewards, and the recruitment policies dictated by reasons which are mostly non-economic.

It is most likely that the above-mentioned areas of malpractice by the public sector may be reversed by private sector takeover. This is because privatised schemes will be more responsive to the market, as competition will be the main motivator for the organisations to improve their products and services at lower costs through the better and more efficient use of economic resources. The introduction of changes in the manner of the management of privatised schemes should render them more flexible in decision-making. It is obvious that the management of private sector institutions is characterised by the simplicity of procedures with the minimum routine possible. Hence, privatization experiments have proved in many parts of the world the success of privatised institutions in achieving their objectives reasons, including flexibility and freedom of decision making and the fast track style of decision-making away from the old bureaucratic and dogmatic ways. The creation of more jobs could happen in the medium and long term after the completion of privatization plans. This could be due to the fact that privatization would allow the private sector to be involved and compete in economic activities that were initially limited to the public sector. On the other hand, privatization would allow the private sector to broaden its base of investment and to add new services that were previously provided by foreign subcontractors. All of these activities will eventually pave the way for new opportunities for employment.

Boosting the earnings of the state and improving the balance of payments is one of the positive impacts of privatization, which will eventually alleviate budget deficits and otherwise add to financial reserves. Moreover, these revenues will further increase the state's spending power without using reserves or borrowing from central banks. Also, improvements in the balance of payments will further lead to potential increases in investment revenues. Improving the efficiency of the private sector in the management of big projects will improve the understanding of this sector of the complexities associated with these projects. Consequently, this will render the private sector more confident to undertake future assignments which are similar in nature.

In many cases privatization might be the only way out of economic difficulties. By cutting public spending to reduce budget deficits, privatization will not only enable the state to get rid of unsuccessful public projects which have become a financial burden on the state budget, but will also tend to transform these projects in a way that leads to them shedding their inherent structural defects, hence also reducing public spending.

Privatization improves performance, and boosts productivity by the reduction of costs and by more effective supervision. Free market competition is likely to make privatised projects adopt traditional commercial styles that will raise performance levels. This will entail better supervision from owners and shareholders, which will be benefits to both the state and the people. Moreover, the independence of private projects will result in the better organisation of those projects with simplified procedures, as well as leading to the introduction of new systems for motivation.

This will make privatised projects a breeding ground for skilled labour, also assisting in getting rid of any redundant workforce, which can then be used in other areas of demand. Three important arguments for the case for privatization (economic, social, and political rationale) are discussed below:

2.8.1 Economic Rationale of Privatization

Privatization is often presented as a reaction to the trend of the 1960s and 1970s, characterized by a rapid expansion of the public sector in the developing world (Walle, 1989). While the specific reason for this phenomenon varies from one country to another, the presence of a large public sector is a common feature. During those decades, states took on a large number of economic tasks, from manufacturing to agriculture, and from transportation to banking and insurance services, for reasons related to employment, efficient and equitable resource utilization, and institutional insufficiency. The justification for the rapid growth in the public sector and the concomitant rise in public expenditures was derived from arguments regarding market failure, the need for economic diversification, and the necessity to control national resources (at least those believed to be strategic). The basic underlying political argument behind the growth of the public sector in developing countries was that it was one of the pillars of nation-building, national unity, and social stability (Killick and Commander, 1988; and El-Naggar, 1989).

However, in many cases, this expansion of the public control of the economy led to economic stagnation, mismanagement, and the misuse of resources. Many proponents of privatization contend that state control is the main reason why developing countries have stagnated. The indictment includes heavy losses by state-controlled enterprises while benefiting from subsidies, protection from domestic and foreign competition, and privileged access to capital and other resources. Moreover, state enterprises lack clear objectives or are overly centralized, suffer from bureaucratic meddling, are managerially inept and excessively staffed, and experience high labour turnover (Killick and Commander, 1988; Van De Walle, 1989). All of these factors are considered to be major impediments to sound economic management and efficiency. No wonder many developing countries have suffered from economic decline, rising fiscal deficits, and external debt. As a result, critics of state intervention argue that for developing countries to turn their economics around they must resort to privatization or market mechanisms, which are associated with economic efficiency and better resource allocation.

The main argument in support of such a claim is that free markets impose the discipline of competition with a plurality of providers. In addition, price signals through the market better reflect true economic costs based on relative resource scarcities (Vickers and Yarrow, 1991; and Kikeri, et al, 1994). Furthermore, private enterprises are believed to be more responsive to customer needs, more accountable to resource providers, and less prone to corruption and waste as usually believed to be the case for most SOEs (Saves, 1987). There are three major areas of value involved in privatization, according to its proponents: the issue of ownership, competition, and the benefits associated with lower prices for goods and services. Privatization has the effect of reducing the size of public sector deficits and shifting economic decision-making away from bureaucrats into private hands more familiar with the working of market mechanisms; all factors favourable to economic growth and social development (Feigenbaum and Henig, 1994).

Further support for privatization lies in its potentially positive impact on a number of macro-economic policies. One of the most important aspects of privatization is probably its impact on fiscal policy. Proponents of privatization argue that it will significantly improve public finances as a result of lower public spending combined with higher fiscal revenues. It is assumed that privatization will reduce the size of government if one includes the public sector as a part of government. This reduction will result in lower public expenditure since there will be fewer loss-making SOEs. In addition, the sale of public assets is expected to translate into greater fiscal receipts. The combination of these factors is thought likely to significantly reduce the chronic fiscal deficits plaguing many developing countries.

In addition to reductions in a government's operating deficits, proponents of privatization claim that it could significantly contribute to a reduction in the country's external debt, and the generation of new sources of tax revenue by virtue of higher economic growth. Rondineli and Iacono (1996) indicate that in 1987 Malaysia was able to reduce its public debt by 20% by transferring it to the private sector through the sale of state-owned assets. That same year, the government also saved nearly 4 billion dollars through the privatization of certain public works. Furthermore, privatization may foster an atmosphere that stimulates domestic investment, attracts foreign capital and technology, increases domestic and foreign confidence in the economy, and encourages the return of flight capital (Lieberman et al, 1995). The latter gain is particularly crucial because it is believed that flight capital in developing countries has deprived them of important resources estimated at several hundred billions of dollars, which has thus been one of the major sources of their economic stagnation.

Another important issue in privatization is the assumption or expectation that the private sector may run the companies that are privatized more efficiently, thus spurring economic growth and adding to national welfare through more job creation and income. Resorting to market mechanisms is believed to lead to better allocative efficiency of resources by virtue of open competition, which puts constant pressure on managers to perform efficiently for fear of bankruptcy (Vickers and Yarrow, 1991).

However, this assertion is valid only to the extent that markets are efficient and there exists significant competition, which will push private producers to improve their productivity if they are to survive. Perfect competition hardly exists in the real world, according to Simon (1996), who brings a different perspective to the issue of market mechanisms. He makes a pointed criticism of the neoclassical assumption of perfect competition as a condition for market efficiency through a free price system that adjusts spontaneously according to the laws of supply and demand. By contrast, he suggests that concept of market clearing mechanisms is more consistent with the invisible hand which is the theoretical underpinning of neoclassical economies. In addition, Simon contends that there is ample empirical evidence to show that market-clearing mechanisms prevail in daily economic transactions worldwide. This is so because, essentially, the market's role is to coordinate the decisions and behaviour of economics actors, such as firms and consumers (Simon, 1996).

Other economic benefits associated with privatization include what some call non-market efficiency gains, such as the reduction in or elimination of bureaucratic interference and political pressure, simpler and more effective information flows within the company, and the decentralization of decisions. The reasons for these gains reside in the belief that with the privatization of a sizable portfolio of public enterprises, the state may concentrate on those activities it does best with limited resources, and significantly scale-back its regulatory role and control. Combined with greater government efficiency, this would create a more favourable environment for private entrepreneurs to run their business more efficiently (Van De Walle, 1989).

2.8.2 Social Rationale of Privatization

Since privatization is associated with economic growth, its proponents argue that it will lead to a better standard of living. First, by virtue of competition among several suppliers, privatization will lead to the provision of more and better goods and services at affordable prices. Second, by spurring economic growth, it will provide more job opportunities, which contributes to raising the level of national income. As a result, privatization will help create the conditions for a better life for a growing number of people. This, in turn, will create the conditions for a more stable social system and reduce the likelihood of instability and violence stemming from widespread poverty.

However, one may object to this automatic, even mechanical link, between privatization and growth. Indeed, since privatization is associated with a more unequal income distribution, its positive social impact can be valid only to the extent that the groups or classes who benefit the most from it reinvest in the domestic economy, and if there is a shift in government expenditure and taxation designed to correct for the income distribution bias introduced by privatization (Killick and Commander, 1988).

The World Bank's survey of privatization in the former Soviet Bloc shows not only a huge drop in economic growth, but also high rates of unemployment. Overall, economic reforms in those countries have been associated with high social costs (lower wages, rises in temporary jobs, rises in poverty levels, etc.) without substantially improving the quality of goods and services produced, nor lowering their prices (Nellis, 1999; and Barberis et al, 1995). As a result, there is a growing income polarization between a small group of nouveau riches and a large number of have-nots (Rondinelli and Iacono, 1996).

This pattern may be more dramatically illustrated by the experience of Central and East European countries, but it is not limited to them as witnessed by the spread of mass poverty in many countries subjected to structural adjustment programmes in Sub-Saharan Africa and Latin America. This is an indication of the adverse effects of economic restructuring, particularly in the context of a weak state, in which the loss of the minimal safety net could affect the most vulnerable segments of society.

2.8.3 Political Rationale of Privatization

The political impact of privatization is, in part, a direct consequence of its social impact, according to its proponents, because privatization is presented as a more effective route toward a more democratic, open and tolerant society. The neo-liberal creed views private ownership as the central core of individual development and freedom, because privatization spreads economic power and wealth. Therefore, privatization in developing countries would contribute to more freedom, less government interference, and to the development of a more open and powerful civil society, which is an important factor in the development of a stable and democratic political system. Proponents of privatization contend that through individual choice and preference mechanisms, free markets foster a more democratic environment and promote respect for private property and human rights.

In short, privatization is believed to create an environment conducive to sustainable economic growth, better living standards, and more democratic forms of government (Al-Mugairbi, 2003). This assertion stems from the fact that with the spread of economic power, there may exist not only powerful professional associations, but also a strong civil society that may act as an effective contributor to the spread of democratic values. In connection with this view, some analysts believe that the political liberalization observed in many developing countries in recent years has followed economic liberalization and the transfer of greater economic power into the hands of the private sector (Kikeri et al, 1994; and Cook and Minogue, 1996).

However, in many developing countries, economic liberalization is often forced on them by the IMF and the World Bank with the backing of developed countries, which is more significant than political liberalization. Even in the case of East Asia, it may be observed that the so-called tigers have undertaken substantial economic and financial liberalization with relatively authoritarian governments in power.

In China, Africa and the Middle East, for instance there is widespread economic liberalization, but limited, if any, political democratization. Therefore, the association made between economic and political liberalization may be true in some cases, but cannot be generalized.

2.9 Determinants of Post-Privatization Performance

The literature on privatization shows that not all privatization programmes conducted over the world have been successful. Several studies on privatization have found positive financial results from changes in the ownership structures of SOEs. For example, Boubakri and Cosset (1998) analysed the performance of 79 newly privatized firms in 21 developing economies-mostly middle income, but including Bangladesh, Jamaica, Nigeria, Pakistan and Philippines between 1980-1992, and conclude that on average the firms in their sample showed significant increases in profitability, operating efficiency, capital investment spending, output and employment, and a decline in leverage and an increase in dividends. Table 2.2 offers more details[8]:

Table 2.2 Post Privatization Performance: Key Results for 79 Companies Privatized in 21 Developing Countries (1980-1992)

Indicators	Average Change (percent)
Profitability: Return on Sales	124
Efficiency: Real Sales per Employee	25
Investment: Capital Expenditure / Sales	126
Output: Real Sales (adjusted by CPA)	25
Total: Employment	1.3
Leverage: Debt / Total Assets	-5
Dividend Payout: Dividends / Sales	44

Source: *Boubakri and Cosset (1998).*

In addition, 'seven of ten large loss-making manufacturing firms in Bangladesh returned to profitability, showing increases in output, sales, capacity utilization and labour productivity, and declining unit costs (Dowlah, 1998).

Privatizations of firms in developing countries have led to increases in net income from sales, and net income from assets by 100% and 30% respectively (Boubakri and Cosset, 1998). Moreover, initial public offerings of 85 firms from 28 industrial countries improved net profits from sales and net income from assets by 25%, and 20% respectively. These authors argue that privatization brings to the firm private investors who have strong incentives to pursue efficiency, thereby leading to organizational improvement.

In the developing countries, most of the growing body of work assessing performance before and after privatization concludes that privatization improves enterprise. On the other hand, some studies show unfavourable outcomes of privatization (such as Parker, 1999; Rondinelli and Black, 2000; and Parker and Hartley, 1991). Similarly, due to the complex requirements for success, such as political risks and local partner fit, more than 40% of alliances between multinational private companies and former SOEs in Central and Eastern Europe did not survive (Rondinelli and Black, 2000). Parker and Hartley (1991) also found that ownership transformation among ten firms in the United Kingdom did not guarantee improved performance; some privatized firms had lower efficiency whereas some nationalized firms improved their profitability[9].

As evidenced by the mixed outcomes of privatization, the effects of privatization appear to be contingent on both firm-specific considerations and external factors. Firm-specific considerations may include the firm's resource endowments such as human resources, technology, ownership characteristics, and culture. When high quality human resources are coupled with innovative technology, a transfer of ownership can ensure success.

External factors are those outside of organizational boundaries such as competitive surroundings, regulation, and capital markets. For example, the development of stock markets as an external supporting factor helps facilitate a transfer of large amounts of government assets to the public and induces information availability and asymmetry among private investors. In addition, competition in the industry is necessary to ensure success in carrying out privatization, since competition creates pressure for privatized firm to survive and where efficiency ensures their survival. Moreover, country characteristics influence the impacts of privatization choices on organizational outcomes. For example, countries with fair regulatory and legal systems can provide private investors with much more confidence in investing in privatized firms due to guaranteed ownership rights and a lack of asset appropriation.

Privatization, therefore, has caused both favourable and adverse results in organizations. Private investors can provide new management skills and technology, enabling privatized firms to improve competitive advantages. However, in privatized firms which are partnerships between governments and private parties, private investors may experience conflicts with the government because they differ in culture, experience, technology and management style, causing negative results from privatization. In addition, privatization may transform organizational cultures, structures, systems, strategies, and decision makers. Such changes can lead to both positive and negative outcomes, depending on the flexibility of the organization and its human resources in adaptation. The following sections will give a brief review and discuss six potential factors that may affect formally SOEs post privatization:

2.9.1 Internal Governance Control

One source of inefficiency resulting from government ownership is a fundamental weakness of monitoring and incentive systems. Therefore, the efficiency of internal control is considered as one of the key factors in improving post-privatization performance. Internal corporate governance is often defined as the interaction between owners and managers in controlling and directing a company, and can be referred to the structure and functioning of board of directors, or the rights of shareholders in boardroom decision-making (Blair, 1995).

An SOE's ownership is diffused among a country's citizens and no one has the right to sell his or her shares, thus no incentive is created for any owner to scrutinize the behaviour of SOEs. Relationships between managers and all citizens (shareholders), from whom ministers or politicians want to gain political support, are complex, resulting in a fundamental weakness of monitoring systems (Yarrow, 1986). Compared with government ownership, private ownership is more concentrated among fewer owners, each having the right to sell his or her shares. The private owners have incentives to monitor management to ensure the firm's performance. In private enterprises, there is a link between agents (managers) and principals (shareholders).

Private owners delegate internal, organizationally based mechanisms of corporate control to a board of directors, and then the board delegates most management and decision functions to internal agents, but keeps control over them. Internal control systems, designed to regulate managerial behaviour, have critical effects on firm innovation (Hitt et al, 1996). Hitt et al, (1996) provided evidence that the use of internal control can promote or lower managerial commitment to innovation, depending on organizational culture and types of internal control. Therefore, the outcomes of privatization depend on subsequent improvements in internal control systems.

Managers who initiate and implement decisions are not the owners and therefore do not bear a major share of the wealth effects of their decisions (Fama and Jensen, 1983). Managers and owners differ in their interests and risk performances. The owners tend to be more risk-taking than management since the owners can diversify their own investment portfolios (Eisenhard, 1989).

The owner's power, as determined by ownership concentration and ownership types, will have an impact on internal control through the selection of board members. Board members, both executive and non-executive, are the formal guardians of the stockholders' interest, with responsibility for hiring, firing, compensating, ratifying, and monitoring top management, ensuring the separation of decision making and control. Incentive contracts and management dismissal are internal, organizationally based mechanisms of corporate control available to boards of directors (Walsh and Seward, 1990), enabling them to align the diverse interests of managers (agents) and shareholders (principals). The privatization of former SOEs through initial public offerings, strategic alliances, direct sales, and so on directly affects internal governance through changes in ownership. In addition, non-ownership transformation privatization, such as management contracts, can change the way the government monitors management through the content of contracts even though there is no change in ownership structure.

2.9.2 Competitive Environment

Privatization can fulfil its expected outcomes only when it is supported by policies that create competition, because competition is a source of incentives for efficiency. An underlying objective of privatization is to strengthen market mechanisms, but the transfer of ownership from a government to the private sector alone is inefficient to guarantee market competition. For example, there may be no change in external competition following privatization. Some privatized firms may still hold monopoly power if the government does not have any policy to increase competition. On the other hand, some privatized firms may face pressure from increased competition following ownership transfer. Moreover, some argue that the changes in competition are relatively less important for SOEs which have operated in competitive surroundings before privatization.

Most governments in developing countries have monopoly power in doing business and lack the discipline of market mechanisms. They are thus protected from striving for optimal efficiency and profitability. On the other hand, in competitive industries, all organizations including SOEs need to improve their performance in order to compete with each other for resources such as labour and raw materials.

Competitive markets can be promoted by reducing barriers to entry while providing resources fairly to potential market players.

In this context, Caves and Christensen (1980) studied the relative efficiency of government and private ownership in a competitive environment and concluded that the benefits of competition can overcome any tendency toward inefficiency resulting from the government's lack of property rights.

2.9.3 External Governance Control

In addition to internal corporate control mechanisms noted by agency theory, there are also external, finance market-based control options such as takeovers and mergers that are employed to bring the interests of managers and shareholders into congruence (Fama and Jensen, 1983: Walsh and Seward, 1990). External control should operate when internal control efforts fail (Walsh and Seward, 1990). SOEs under government control are protected from takeovers and mergers by private investors. Vickers and Yarrow (1991) suggest that there is no public sector equivalent of bankruptcy. Absence of such a risk for SOEs is thought of as one possible reason for internal inefficiency.

As they become privatized firms, they have less protection from government and thus more exposure to external control. If a privatized firm's performance is poor, it will be a target of takeovers or mergers. Therefore, external control is important to monitor the former SOE's post performance. Privatization helps to increase the efficiency of external control mechanisms for formerly SOEs through the development of stock markets.

Holmstrom and Tirol (1993) studied the value of stock markets as monitoring managerial performance. In this regard, he argues that there is little doubt that the stock market was set up for other reasons than managerial monitoring. In contrast, the underdevelopment of capital markets in transitional or developing countries reduces the effectiveness of privatization. For example, in Malaysia, Indonesia, and Taiwan, weak stock markets and low demand for shares slowed the process of selling SOEs in 1990 and 1991 (Rondinelli and Kasarda, 1993).

2.9.4 Managerial Capabilities and Human Resource Management (HRM)

After privatization, decision makers will use simple decision rules from previous experience to make sense of post-privatization information and to process data. Decision rules from previous experience may not apply to the post-privatization working environment. Decision managers after privatization, tend to use a simplification process when facing new information in order to eliminate uncertainty, thereby causing misinterpretation and overlooked information.

Managerial skills are considered key resources in obtaining competitive advantages from the firm (Castanias and Helfat, 1991). Therefore, managers' abilities to deal with new ways of doing business and new management procedures are important to post-privatization performance improvement. Equipped with flexibility in adapting to a new environment, managers can facilitate the firm's transition to private ownership, leading to improved post-privatization performance. In regard to HRM, one of the main sources of competitive advantages is to know how to manage the workforce through resource policies and practices (Pfeffer, 1994).

With clearer goals and more incentives, management and employees in privatized firms are expected to have more motivation to perform business transactions. Pfeffer (1994) listed seven HRM practices of successful organizations which are; employment security, selective hiring, self-managed teams, incentive pay, extensive training, extensive information sharing, and reduced status barriers. A government enterprise's human resources are generally managed through government civil service systems which have high levels of formalization and standardization. Therefore, SOE managers face limitations in utilizing labour more productively.

On the other hand, HRM practices in private firms are more flexible than those found in SOEs. Also, HRM in private firms can be more easily matched to the demands of business due to their clearer goals and lower levels of standardization. However, HRM is not improved in all privatized firms due to the issue of organizational inertia from a history of dependency or management entrenchment. Some privatized firms with new private shareholders still carry out HRM practices directly inherited from the past. Therefore, efficiency in HRM is important to improve the post-privatization performance of former SOEs.

2.9.5 Partnership Fit

The World Bank database demonstrates that most newly privatized firm take the form of a partnership between government and private parties. Due to the different interests of government and private investors, the success of mixed enterprises depends on how well they achieve a combination of efficiency and social objectives (Boardman et al, 1989). Cooperation between government and private owners is one of the key determinants influencing post-privatization performance.

Successful partnership depends on cooperation (Park and Russo, 1996), partnership commitment, communication (Mohr and Spekman, 1994). Also Saxton (1997) argued that shared decision-making, strategic similarities and partner reputation are important in increasing partner firms' benefits. Moreover, Datta (1991) studied the impact of organizational differences between acquiring firms on post-acquisition performance and proposed that differences in top management styles have a negative impact on performance. Differences in top management styles can cause higher transaction costs due to lack of trust and cooperation. The governance structure of partnerships can be classified as either equity or non-equity alliances, such as joint ventures, licensing agreements, distribution and supply agreements, research and development partnerships, and technical exchanges.

Privatized firms can be in the form of partnerships between local government and either local private parties or foreign private investors. Through alliance-based privatization, SOEs are able to acquire knowledge, experience, and technology-based capabilities from private partners, and cultivate worldwide learning capability (Bartlett and Ghoshal, 1989).

Private partners are able to expand the customer base, diversify fixed costs such as, information or promotional expenditure from their domestic markets into foreign affiliates, and control production and marketing facilities. The degree of fit between local and foreign partners is thus considered as one of several complex requirements for successful privatization (Rondinelli and Black, 2000).

2.9.6 Country Development

Privatization policies that are effective in one country may not be so in another because of differences in development which can stem from cultural, political, economic and social characteristics, but mainly arise from the role of national government. In order to develop its country, a government needs to be proactive in working with business by dismantling old management systems to focus on adding value to national competitiveness, and to manage the impact of change on the various interest groups (Cullen and Cushman, 2000). Country development can be the cornerstone of post-privatization performance.

De Castro and Uhlenbruck (1997) studied privatization in formerly communist, less-developed countries and argued that country characteristics accounted for differences in privatization strategies. There are many differences with respect to legal, political, and financial systems among countries. Developed countries tend to provide greater protection for shareholder rights and strong regulatory systems. In transition economies, institutional infrastructures to support market-based systems are often weak or missing, thus leading to higher transaction costs for obtaining information and monitoring, and difficulties in constructing legal contracts (Hoskisson et al, 2000).

In most Eastern European countries, the success of privatization mainly depends on introducing new internal corporate control mechanisms that can pressure managers to be responsible to shareholders and directors in order to improve productivity (Rondinelli and Black, 2000).

In sum, evaluating the impact of privatization is not straightforward. Various theoretical perspectives look at different organizational outcomes and levels of analysis. Privatization can be assessed in many ways, for instance by examining whether or not former SOEs survived after being privatized.

At the microeconomic or organization level, the impact of privatization can be assessed by measuring the efficiency of utilizing resources within the firm, such as sales per employee, cost per sale, stock prices, and employee participation in privatization. The macroeconomic effects of privatization involve social and consumer benefits through well-functioning markets and improvements in the nation's economic and financial health, for example in employment rates, product prices, economic growth, and competition.

2.10 Conclusions

Privatization has become a major economic phenomenon throughout the world. Almost all countries have been involved in the process. The underlying objectives differ from one country to another. However, it can be argued that most countries that have privatized their SOEs have shared the objectives of the UK's programme discussed earlier in this chapter.

The purpose of this chapter was to cover three important issues related to privatization: definitions, theories, and methods of privatization. Also, special emphases have been given to determinants of post-privatization performance.

This chapter has reviewed alternative theories of the privatization: property rights, principal-agent and public choice theory. These theories suggest that changes in ownership of enterprises are directly related to economic efficiency. These three theories place different emphases on the objectives, incentive structures and constraints that confront state and private enterprises in explaining inefficiency in state enterprises. Moreover, this chapter includes suggestion of six possible determination of post privatization performance, including internal and external factors.

To sum up, it is certain that privatization can lead to improvements in firm performance, but on the other hand it also has adverse effects which could be due to the absence of many requirements that have to be implemented following the programme.

Endnotes

---

[1] For more details on this issue see, United Nation Conference on Trade and Development, Comparative Experience with Privatization, Policy Insights and Lessons Learned (1995).

[2] Barberis et al (1995) indicate that one reason for using this method is political requirement to buy insider support for privatization. For example, when insiders get ownership incentives, they become more interested in restructuring because they believe they could benefit from higher profits.

[3] United Nations Conference on Trade and Development (1995).

[4] This contrasts with the missing link between ownership and management control in SOEs, in which no one has an incentive to improve economic performance.

[5] Production efficiency means allocating the avialiable resources between industries so that it would not be possible to produce more of some goods without producing less of any others.

[6] The general agency problem can be characterized as a situation in which a principal seeks to establish incentives for an agent who takes a decision that effect the principal to act in ways that contribute maximally to the principal's own objectives. The difficulties in establishing such an incentive structure arise from two factors, (1) the objective of principals and agents will typically diverge; and (2) the information available to principal and agent will generally be different.

[7] On this issue, see Sheshinski and Lopez-Calva (1998).

[8] For more details see Boubakri and Cosset (1998).

[9] Although proponents of privatization seem to have no doubt that privatization is the most important instrument for economic and social development, some critics argue that privatization raise many complex issues that limit its viability as a development policy. For example, asset ownership is not an important as the existence of a competitive environment. In addition, the absence of a market-friendly environment in a number of developing countries is an important inhibiting factor for a successful privatization programme. Finally, one need to consider the perception of an implicit loss of sovereignty and a lower concern for social justice as embodies in the case of public assets transfer to the private sector, whether domestic or foreign (Killick and Commander, 1988).

CHAPTER THREE
AN OVERVIEW AND ANALYSIS OF THE LIBYAN ECONONY

3.1 Introduction

The Libyan economy is an example of a developing semi open economy that is dependent primarily upon revenues from the oil sector, thus rendering it an oil rentier state. Prior to the discovery of oil and the beginning of production in 1961, Libya had been one of the poorest countries in the world (Vandewalle, 1998). However, in the aftermath of the oil boom following the sharp increases in prices in the late 1970s, the Libyan economy achieved high growth rates unprecedented in any countries other than Saudi Arabia and Kuwait (Mirza, 1998; Biltamer, 2003).

Records show that the real domestic product achieved an increase in growth rate with an annual average of 13% during the years 1970-1980, and also achieved increases rates in savings and investment rates as well as Gross Domestic Product (GDP) per capita. However, a number of unique characteristics have left the Libyan economy persistently lagging behind. The most important of these characteristics is the small size of the local market given the small population of the country. Other characteristics include a small and untrained workforce, a poor agricultural sector, unstable and ineffective economic policies, particularly development-related policies, and also the dominance of the public sector over other economic activities (Almansouri and Alfarisy, 2004).

Despite the huge efforts made by the development programmes, the Libyan economy has remained under-developed. This became particularly clear in the wake of the collapse of oil prices in the early 1980s. The deterioration in oil prices led to lower growth rates and other structural defects. The severity of these defects has promoted the desire to rectify the situation with appropriate economic re-structuring[1].

The purpose of this chapter is to evaluate and review the Libyan economic situation before and after oil discovery. Specific emphasis is given to the most important characteristics of the Libyan economy.

3.2 Geographical Background and Population of Libya

Libya is located in the centre of North Africa with a Mediterranean coastline of about 2000 kilometres. To the north, the country is bounded by the Mediterranean Sea. It has Tunisia and Algeria on its western borders and Egypt and Sudan to the east. Its southern border meets Chad and the Niger Republic. The long coastline affects the climate of the northern part of the country, whilst the rest of the country is affected by the great Sahara desert of Central Africa (Al-Teer and Ezzabi, 2002). The area of Libya is about 1,775,000 square kilometres, making it the fourth largest country in Africa at seven times the size of the United Kingdom (Al-Teer and Ezzabi, 2002).

The population of Libya in 1911 was approximately 750,000. In 1942 it was about 500,000. This loss was due to deaths in war. According to the 1973 census, Libya had a population of slightly more than two million. However, by 1993 it was estimated to have risen to more than four million[2]. Libya's population is currently estimated at about 5.4 million, increased from about 4.483 million persons in 1990.

The annual growth rate of the population is now about 4.5%, one of the highest in the world (Al-Teer and Ezzabi, 2002).

Table 3.1 illustrates the evolution of the Libyan population, the annual growth rate, and the percentage of non-Libyans, indicating that the growth rate is very high compared with neighbouring countries. In addition, the growth rates of the 1970s and the 1980s were higher than that during the 1990s, which confirms that the development plans 1970-1985 led to an improvement in standards of living. Moreover, the total population in 2000 was estimated at 6.200 million with an annual growth rate of 3.84%. Also, the non-Libyan population increased from 255,000 in 1970 to 600,000 in 2000, with an annual growth of 4.5% during the period 1970-1985, and 5.15% in 2000.

Table 3.1 Population Estimates and Growth Rates 1970-2000 in (000's)

Population	**1970**	**1980**	**1985**	**Annual Growth Rate %**	**1995**	**2000**	**Annual Growth Rate %**
Total	2000	3246	3961	4.1	5200	6.200	3.84
Libyan	1745	2805	3961	3.9	4823	5.600	3.22
Non-Libyan	255	441	5.50	4.5	477	600	5.15
% of Non-Libyan	12.72	13.6	13.9	---	9.17	9.67	---

Source: *The Five-Years Plan 1981-1985, IMF, International Financial Statistics Yearbook 2004.*

Owing to its strategic location in North Africa and the Middle East, Libya has been subject to waves of military invasions, which were to continue until 1942. The Phoenicians, Numedians, Ptolemies, the Byzantine Empire, Vandals, Romans, and Greeks all at one time or another settled on the coast of Libya (Habib, 1979).

As a result, numerous cities were built along the coast. Present-day ruins tell the stories of civilisations which previously flourished around the Mediterranean Sea (Adam, 1994). The largest metropolitan centre in Libya is Tripoli, and other major cities are Benghazi, Sebha, Sirte and Misurata.

3.3 Historical Background

The majority of the population came to the country in several waves of migration from the Arabian Peninsula in the 7th, 8th, and 11th centuries. Arabs came to Libya with their Arabic language and their way of life as well as the Islamic religion. Thus, Libya became part of the Arab Islamic Empire. In 1855, Libya became a part of the Ottoman Empire, remaining so until 1911. As the last of the invaders, Italy started its occupation of Libya in October 1911, and was only displaced after the Allies won the Second World War, when Libya came under British and French military administration in 1942.

Libya was granted independence by UN Resolution proclaimed on 24 December 1951. The new nation became a monarchy ruled by King Idris, whose political leadership derived from his role as a leader of the religious order established by his family under the name of the Senssi order. On the eve of independence, the King started negotiating with both the British and the American military authorities.
In 1953-1954, Libya was tied by military treaties to both Britain and the United States in exchange for less than $10 million annually. In 1958 oil was first discovered in Libya, and by 1962 oil exports started in commercial quantities. Since then profound changes have taken place in the Libyan economy.

On 1st September 1969, a group of young revolutionary officers overthrew the monarchy. Libya was transformed from a constitutional monarchy into a revolutionary republic. Subsequently, fundamental changes in the Libyan economy came as a result of a combination of external and internal factors; the most important being the declaration of the Libyan Jamahiriya in March 1977. The Jamahiriya is a state of the masses involving the transfer of both legislative and executive powers to the people.

3.4 The Political Environment

The political system of government in Libya is run by the Basic People's Congress (BPC), which includes all Libyans over 18 years old. The BPC act as a legislative body that issues decisions formulated in the General People's Congress, the highest political body in the country. The popular committees at different levels are intended to execute the decisions of the General People's Congress. This system was introduced in Libya in March 1977. Since 1969, there have been significant changes that have affected the Libyan economy, society and political system. The republic was proclaimed after a bloodless revolution, which announced its objectives and goals to evacuate foreign bases, and to abolish the monarchy. Moreover, it announced its neutrality with respect to all superpowers in the world, and supported Arab Unity. In general, the main objectives of the revolution were to achieve the development of Libya's economy and to improve the standard of living of the people. Besides this, the General People's Congress declared that the important political changes in Libya must be associated with the abolition of the Republican system on March 2, 1977. Consequently, all political parties were banned and replaced by People's Congresses throughout the country.

3.5 The Libyan Economy before the Oil Discovery

Prior to the discovery of oil, the Libyan economy was considered as poor and under-developed. For example, Farley (1971), an expert from the UN working with the Ministry of Development and Planning during the period 1964-1966, pointed out that "the description of the Libyan economy as developing prior to the oil discovery is an over exaggerated view". Moreover, El-Fathly (1977) quoted Benjamin Higgins who described the situation in Libya as the:

> "Prototype of a poor country...the bulk of the people lived on a subsistence level...no sources of power and no mineral resources, where agriculture expansion is severely limited by climate conditions, where capital formation is zero or less, where there is no skilled labour supply and no indigenous entrepreneurship...Libya is at the bottom of the ranking in income and resources".

Despite the vast area of Libya, estimated at 1.7 million sq km, only 5% of this land is used, and arable land constitutes 1% of the total (Al-Teer and Ezzabi, 2002). However, this is only one of the factors restricting agricultural development, along with the scarcity of water resources and the low productivity of the workforce associated with this sector.

This low productivity is emphasised by the fact that even though agriculture and the pastoral sectors employ 70% of the workforce, their collective contributions to GDP have never exceeded 26%, associated with low income and consumption levels as well as those of production and investment (Dassoqi, 1995).

Following independence, the urban population of Libya was estimated at around 20%, the rural population 43% and nomads and Bedouin 37%. On the other hand, the manufacturing fared no better than agriculture after independence, and manufacturing activities were confined to some simple traditional handicrafts, such as carpets and simple houseware (more discussion on the characteristics of the Libyan manufacturing sector are given next chapter).

However, other manufacturing activities were related to agriculture and animal farming, such as the canning of tomatoes, the grinding of cereals to produce flour, and the weaving of wool. All of these industries mainly targeted the local market, even though there were some exports such as of canned fish and castor oil. So, the dependence of the manufacturing sector on agriculture rendered it seasonal and unstable, and its contribution to the GDP did not exceed 10% along with a modest contribution to employment (Al-Jhemy, 1992). On the other hand, as well as the poor performance of these sectors, the contribution of the service sector was also modest. For instance there were no schools apart from a few elementary schools, and trade was very basic and mainly dominated by some foreigners (Al-Jhemy, 1992).

However, with regard to these stagnant conditions, shortages of capital in both the public and private sectors were a major obstacle to efforts to improve the national income. In Tripoli, for example, the average per capita annual income for individuals was estimated at $42 in 1950 (Hasea, 1989). Hence, the Libyan economy at that time was branded as incapable, and dominated by a vicious circle which included declining savings leading to less investment, leading to less income and savings. Moreover, the Libyan economy continued to depend on international aid provided mainly by the UN. In this regard, records show that international aid constituted 26% of national income until 1959 (Hasea, 1989).

However, given the inflexibility of the production system, imports became a major resource for meeting the basic requirements of the population. Thus, the insufficiency of exports resulted in sharp deficits in both the balance of trade and the balance of payments, rendering the country even more dependent on international grants and aids. In short, when Libya became independent in late 1951, it was one of the most backward and poorest countries in the world. After almost three thousand years of foreign domination and due to a general acceptance of a rigid social system, the country was very ill-equipped to solve the many problems of economic growth and sustained development. Until the discovery of oil in the late 1950s, Libya was economically stagnant.

3.6 The Libyan Economy after the Oil Discovery

The discovery of the oil and the commencing of its exportation in September 1961 marked the beginning of a new era in the economic history of Libya of capital surplus and rapid growth. Until the discovery of oil in the late 1950s and early 1960s, there was no economic sector in Libya with adequate production and visible resources that could have been expected to raise standards of living markedly and alter the serious economic and foreign trade imbalance. But by 1962, this picture had changed dramatically and since then profound structural changes have taken place in the Libyan economy.

The country managed to achieve a vertical take-off from being a small regional trading post to becoming an affluent metropolitan state of international prominence, with high rates of per capita income, and a high relatively stable growth rate, as well as a well-developed infrastructure and social welfare system.

Ever since the discovery of oil and the associated movement of foreign companies into the country to engage in oil exploration in the end of 1950s, and with the commencing of the oil exportation in 1962, things have never been the same. The prevailing socio-economic structure of the Libyan economy has undergone basic transformations initiated by the huge oil revenues. These enabled the country to reduce its deficits and fostered expectations for development funded by oil revenues.

Moreover, the oil bonanza led to a number of economic developments; most significantly increases in growth rates, public spending, real incomes, prices, imports, and above all the creation of new jobs with improved wages compared to those before oil discovery. These jobs, however, have been concentrated mainly in urban areas leading to the demographic redistribution of the population. Records show that this period witnessed very high growth rates, often described as being the highest in the world. For example GDP achieved an annual growth rate of 22.6% resulting in an annual per capita increase in GNP of 16%. Likewise the gross fixed capital formation achieved an annual growth rate of 15.6% in addition to the growth of the oil sector itself at an annual rate of 46.7%, other sectors also grew, including the building and construction sector at 19.9%, the transport sector at 16.6%, the service sector at 13.4% and the trade sector at 12.7% (Al-Jhemy, 1992).

It is evident that oil yielded huge earnings for the country. These earnings have led to the domestic accumulation of capital, which is a basic element for economic development. However, besides increasing the national income, the oil discovery introduced advanced technology into the country via the oil companies. This technology has had a great impact on this previously primitive society, introducing fundamental changes in its social structure, rendering the society vulnerable to many immediate potential social transformations. This situation led the state to reduce its financial deficits and focus on development. The oil revenues constituted the main new source of financing public spending. Records related to this spending indicate that after 1963 oil revenues constituted a significant portion of total earnings of 26% in 1962-1963, increasing to 80% in 1968-1969 (Al-Jhemy, 1992).

Likewise public spending has increased by 1.7% between the 1955 and 1962 by 3.7% between the years 1963-1968. However, the transformations attempted by the first development plan executed during the period 1963-1968 mainly focused on spending, and its main objectives were a rapid improvement of living standards and encouraging a reverse migration of the population from urban to rural areas. The plan also targeted the agricultural sector as being the main source of providing the population with basic food materials, as well as the main source of income for the bulk of the population. Furthermore, besides the agricultural sector, the plan focussed on the public sector as the main service provider, including education, health, transportation, and housing services. This role of the public sector then became characteristic of the Libyan economy, with the domination of the state over all economic activities (an issue given more attention later in this chapter).

The plan also adopted a policy of imposing no restrictions on imports. This aimed to provide for the requirements for the development plan, including appropriate monetary and financial policies for achieving development in a stable economic atmosphere. Huge funds were allocated for the plan, totalling around LD 450 million. Around 57% of the total funds were allocated for investment in the oil sector.

However, given the ambitious objectives of the plan, its outcome was in fact humble, since the oil sector still dominated other sectors. Despite the significance of oil as a reliable source of funding, nonetheless the contributions of other sectors to economic activities remained insignificant, as indicated by a number of statistical studies[3]. These studies emphasised the domination of the oil sector over other economic activities as a main contributor to GDP. The contribution of oil was 6.9% in 1958, increasing to 53.9% in 1964 and reaching a peak of 62% in 1968, proving beyond doubt the complete domination of this sector over other economic activity (Mirza, 1995).

This raised concerns among policy makers to sort out this dilemma of oil domination of future plans. The balance of trade achieved a surplus of LD 35 million for the first time in 1963, with oil assuming its position at the top of the list of exports (Hasea, 1989). Then a new feature started to emerge following the movement of the workforce out of agriculture and manufacturing, and the subsequent deterioration in these sectors. This characteristic involved the focus on exports, again implying the domination of the oil sector over foreign trade, for the simple reason that oil constituted the bulk of exports. In addition to being the main earner of foreign exchange, oil became the main source of funding imports. However, the improvement in incomes led to a diversification of imported items as well as an increase in demand for these items.

Therefore, given the decline in local production, most consumer goods were imported despite the requirements of the development plans. Hence diversification was the main theme of the import policy. According to the Central National Bank of

Libya in its annual report for 1959-1960, 40% of total spending on imports represented food and drink products due to the concentration of income in certain social classes which benefited from the acute inflation at that time (Atiqa, 1980). However the increase in the margin propensity to consumer indicated huge increases in the consumption of related commodities, a phenomenon which points towards domestic food deficiency. This is still the case, given the increasing proportions of imported food materials, as indicated by the statistical records from Libyan foreign trade.

3.7 An Overview of the Libyan Economy

Despite its low population density, Libya experiences income inequality among its citizens. In real terms, per capita income in the early 1970s was $2500, increasing sharply to $6700 to become the highest per capita income in Africa. Meanwhile, GDP was estimated at $5 billion in the year 1970, increasing to $23.5 billion in the year 1995 and to approximately $40 billion by the year 2000. The oil sector contributed almost 40% of this; moreover, oil reserves are estimated at around 29.5 billion barrels, representing 6% of OPEC total reserves. However, due to its large dependence on oil exports, the Libyan economy has become vulnerable to external factors, and especially to fluctuations in world oil prices. Therefore, during the mid 1980s, the Libyan economy was severely affected by the slump in oil revenues resulted from low prices, with a decline in revenues from $23 billion in 1980 to nearly $5 billion in 1988. That situation led to the cancellation of various economic projects. Since 1961, oil revenues have been the main source of income, providing the Libyan economy with most of its hard currency.

Yet, despite the United Nations sanctions imposed in 1992, the Libyan economy has remained in good health due to good commercial relationships with some Western Countries such as Italy and Germany. Consequently, in 2000 Libyan oil exports doubled to $12.9 billion. Libya has however desired to reduce its dependence on oil by investing in other economic sectors such as agriculture, industry, tourism, fisheries, and natural gas. In addition, it attempts to play a crucial economic role mediating between the European Union and Africa. Accordingly, Libya has become more involved in the Euro Mediterranean process (Central Bank of Libya, 2001). It is worth mentioning, therefore, that to understand Libya's economy it is necessary to understand its sources of revenues. Table 3.2 presents some general information on some important indicators in the Libyan economy regarding its evolution from 1970 until 2000.

Table 3.2 Some Selected Economic Indicators for Libya 1970-2000

(Constant 1980 Prices)

Indicators	**1970**	**2000**
GDP	$ 5 billion	$ 39.6 billion
Oil Revenue	$ 2.7 billion	$ 7.2 billion
Labour Force (thousands)	400	1200
Current Account Balance	$ 0.9 million	$ 2.0 billion
Merchandise Exports	$ 2.7 billion	$ 7.7 billion
Population	2.0 million	6.2 million
Merchandise Imports	$ 0.8 million	$ 4.6 billion
GDP Per Capita	$ 2500	$ 6700
Trade Balance	$ 0.025 billion	$ 3.1 billion

Sources: *CBL, Various Issues; Economic Indicators of the Libyan Economy 1970-1982.*

From Table 3.2 the following can be concluded:

(i) GDP has increased dramatically from $5 billion in 1970 to around $40 billion in 2000.

(ii) There has been a tendency for a decreasing dependency on crude oil, by 18% in 2000 compared to 54% in 1970; which is mainly due to the development of the petrochemical sector and other industries.

(iii) Although the labour force has witnessed significant growth, it remains approximately the same with respect to the total population.

(iv) The current account balance has increased from $900 million in 1970 to more than $ 2 billion. This has been mainly due to increases in oil prices.

(v) Due to the development of non-oil sectors, particularly the petrochemical sector, there has been a slight change in the structure of exports. For example, in 1970 oil exports represented 100% of merchandise, while that percentage declined to 93.5% in 2000.

(vi) As a result of the growth in demand for goods, and the ambitious development plans, merchandise imports have increased from a value of $800 million in 1970 to $4.6 billion in 2000. In contrast, imports represented 30% and 60.5% of total exports in 1970 and 2000 respectively.

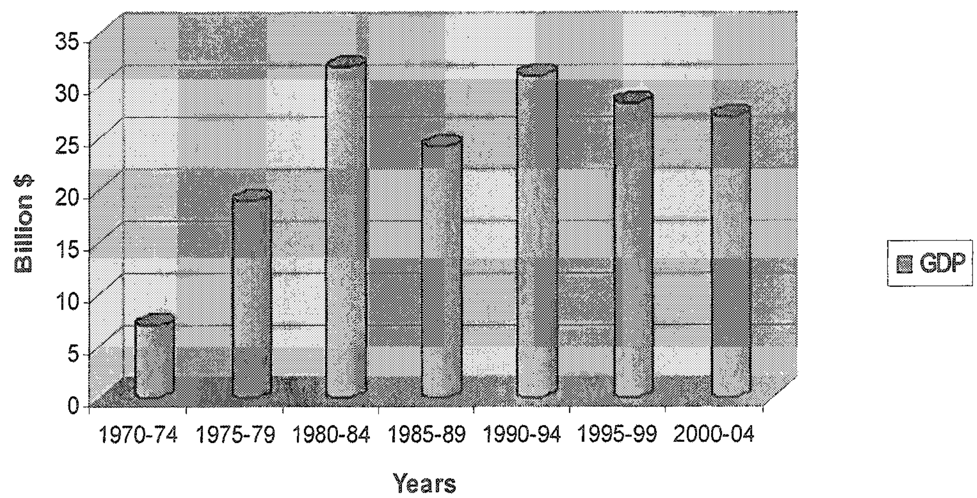
(vii) The GDP per capita increased from $2500 in 1970 to $6700 in 2000, which mainly resulted from the rise contribution to GDP of the non-oil sector.

(viii) The trade balance recorded a surplus in both years.

However, despite the UN sanctions during the 1990s and the economic embargo imposed by the US in the early 1980s, the Libyan economy has seen reasonable improvements within the last three decades. On the other hand, the GDP has increased dramatically from $4.4 billion in 1970 to $12.5 billion in 1974, recording $36 billion in 1980. This growth has been due to increases in oil prices in world markets, particularly during the Arab-Israel war in 1973. Nonetheless, in the aftermath of the U.S embargo in the mid-eighties, the Libyan government became concerned about diversifying the economy, by increasing the contribution of the non-oil sectors to GDP through socio-economic development plans.

During the 1990s, despite the UN sanctions against the country, there was no direct effect on the GDP as a result of oil exports and the rises in oil prices particularly in the late 1990s. Consequently, the GDP average in 1995-1999 was recorded at approximately $33 billion as shown in Table 3.1:

Figure 3.1 GDP at Current Market Prices (1970-2004)



Source: OPEC (2004), *Statistical Annual Bulletin.*

* Researcher's calculations.

Regarding to the structure of the GDP with respect to economic activities and the economic development plans between the years 1963-1985, some important changes were seen in the contribution of non-oil sectors. The construction sector increased by around 9%, followed by 7% for the manufacturing sector, 11% for commerce and restaurants, and 8% for the agriculture sector.

Moreover, the total contribution of commodity sectors represented a significant share of GDP. This reached 55% in 1989 and has since fluctuated around 48% for the rest of the period, although that share included the contribution of mining and fuels, which represent the highest shares in the total GDP followed by the service and distribution sectors.

However, after the lifting of international sanctions in 1999, the structure of the GDP in the year 2000 remained approximately the same as during sanctions period, as illustrated in table 3.3 below:

Table 3.3 Structure of GDP by Economic Activity

(Percentage)

Sector	1989	1990	1992	1994	1995	1996	1997	1998	2000
Agriculture	5.5	6.6	7.0	9.2	9.5	9.4	9.7	12	9.6
Mining	2.8	2.5	25	24	26	28	26	18	29
Manufacturing	8.0	7	7.5	8	8	6.5	6.6	7.3	5.8
Electricity	2.1	1.7	2.0	2.3	2.2	2.0	1.9	2.1	1.6
Construction	1.3	13	13	5.5	4.9	5.9	5.1	4.5	4.5
Total	**56**	**53**	**54**	**49**	**50**	**51**	**50**	**44**	**50.2**
Commerce	6.8	10	11	13	13	13	12	14	13.5
Transport	6.1	7.7	8.6	9.0	9.2	8.6	8.6	9.8	8.2
Finance	4.4	3.7	3.8	2.8	3.0	3.1	2.8	3.7	3.3
Total	**17**	**21**	**23**	**25**	**25**	**25**	**24**	**27**	**24.9**
Housing	4.2	3.3	3.1	4.0	4.1	3.7	3.4	3.9	3.3
Government Services	21	21	18	19	18	18	20	21	17
Other Services	1.3	1.7	1.8	2.6	2.6	2.6	2.6	3.2	3.0
Total	**27**	**26**	**22**	**26**	**24**	**24**	**26**	**28**	**23**

Source: *Arab Monetary Fund, National Accounts of Arabic Countries 1989-2000.*

Generally speaking, the era after oil discovery has incorporated the emergence of all the general features which have characterised the Libyan economy until now. These can be summarized in seven features as follows:

3.7.1 Dominance of Oil

The Libyan economy depends on a single commodity, i.e. crude oil, as a source of income and for obtaining foreign currency. Crude oil exports represent more than 90% of total exports. This trend emerged since the early days of oil discovery and the beginning of its commercial exportation, with the subsequent increase of the contribution of oil to the GDP from 6.9% in 1958 to 62% in 1968. In contrast the contributions of both the agriculture and the manufacturing sectors have decreased from 26% in 1958 to 2.6% in 1968 for agriculture and from 11.5% to 2.3% for manufacturing in the same period.

As shown in Table 3.4, the Libyan economy consists of two main sectors, oil and non-oil exports. The first quantity of Libyan crude oil to be exported was by shipment across the Mediterranean Sea in September 1961. The Libyan economy then started to revive, changing from a negative to a positive balance. The oil wealth caused increases in GDP growth from 54% in 1964 and 66% in 1970. The main feature of the 1960s was the domination of the economy by the oil sector. This situation created in balances in the development of the rest of the economy, such as in the agricultural and industrial sectors. The rapid development of the oil sector attracted many people who were working in agriculture, handicrafts and small industrial sectors to work in the oil sector instead. The movement of so many agricultural workers to the oil sector reduced the importance of the workforce in the agricultural sector, and during the period from 1962 until 1969 the total agricultural workforce decreased by 20,000. Moreover most agricultural areas become poorer, and many were transformed by the building of houses and roads.

Table 3.4 Value of Oil Exports and Non-Oil Exports, $m, (1962-2003)

Year	Oil-Exports	Non-oil Exports	Total Exports	% of Oil in Total Exports
1962	39.2	106.7	145.9	26.8
1965	351.4	130.3	481.7	72.9
1970	1355.2	262.6	1617.8	83.7
1975	4472.2	1556.2	6028.4	74.2
1980	21906.0	712.38	22618.38	97.0
1985	12132.00	182.00	12314.00	98.5
1990	12490.00	746.00	13236.00	95.0
1995	8100.96	1011.31	9112.27	89.0
2000	11260.20	989.8	12250.00	92.0
2003	13567	777	14344	95.0
Average*	8567.42	647.43	9214.85	82.41
St.dev*	7051.36	475.01	7206.03	21.54

Sources: *OPEC, Annual Statistic Bulletin 2001, Libyan Central Bank, various annual reports, OPEC, Annual Statistical Report 2001 & 2003.*
* Researcher's calculations.

Tables 3.5-3.7 show the production of crude oil by operating companies during different period of time:

Table 3.5 Crude Oil Production by Operating Companies 1961-1965

Thousands of Barrels per Day

Company	1961	1962	1963	1964	1965
Esso-Standard	18.2	126.2	250.0	408.9	471.7
Esso Sirte	-	-	43.6	73.1	95.4
Oasis	-	57.7	167.2	342.0	505.8
Mobil	-	-	2.8	45.6	100.7
Amoseas	-	-	-	13.1	43.9
Philip	-	-	-	-	2.09

Source: Ministry of Petroleum Affairs (1972), *Libyan Arab Republic.*

Table 3.6 Crude Oil Production in Libya by Operating Companies 1976-1980

Thousands of Barrels Per Day

Company	1976	1977	1978	1979	1980
Oasis	681.7	689.3	694.9	724.7	656.8
Arabian Gulf	303.2	368.8	308.7	422.2	391.8
Occidental	321.5	354.6	340.8	329.3	240.5
Esso-Standard	80.9	77.4	152.2	138.7	100.8
AGIP	155.5	163.2	159.6	166.1	162.5
Umm Gwabi	113.6	139.8	127.5	141.4	125.7
Mobil	89.6	95.3	94.8	87.8	86.0
Aquitane	17.5	13.6	15.9	17.0	14.3
Wintershall	1.8	2.4	3.2	4.2	3.6
Total	2063.5	1982.1	2091.9	1826.6	1932.7

Source: *Allan (1982).*

Table 3.7 Production of Crude Oil by Operating Groups (1992-2000)

Millions Barrels Per Year

Operating Group	1992	1993	1994	1995	1996	1997	1998	1999	2000
Agip	98.6	95.5	84.5	80.2	83.5	78.5	70.3	62.7	64.6
Arabian Gulf	173.2	150.7	154.2	156.7	177.3	151.1	163.7	149.6	144.3
Sirte	49.8	44.3	45.8	43.4	44.3	43.8	42.7	41.2	40.5
Veba	30.5	44.3	33.5	36.3	38.5	35.0	34.6	32.6	32.7
Waha	167.3	143.8	146.5	145.0	143.4	138.7	132.0	113.6	108.2
Zuweitina	34.9	26.8	28.5	27.1	27.0	25.6	25.5	24.5	25.4
Wintershall	11.2	13.0	15.8	20.4	31.2	32.9	42.3	39.4	39.0
Total	-	-	-	1.5	3.5	3.7	5.1	6.4	6.4
O.M.V	-	-	-	-	1.2	-	1.0	0.8	0.6
Repsol	-	-	-	-	-	-	32.6	56.5	58.1
Vina	-	-	-	-	-	-	0.9	0.4	-
Total	565.5	518.4	508.8	510.6	549.9	509.2	550.9	527.7	519.8
Average per Year	1.549	1.420	1.393	1.398	1.506	1.395	1.509	1.445	1.424

Source: *Central Bank of Libya (2000).*

Tables 3.5-3.7 show the production of crude oil by operating companies during different period of time. Table 3.7 indicates that with the exception of the American companies which left in 1986, many foreign companies working in the country, such as AGIP, Veba, Fentershal, Total, and OMF were still operating. It is clear from Table 3.6 that there was a significant evolution in the production and exportation of oil during that period. While production in 1961 was 7 million barrels, the quantity exported was 5 million barrels, representing 1.8% of total OPEC production and 0.8% of the worlds' total production (OPEC, 1972).

Therefore, the major operating company in that period was Arabic Gulf, with a production capacity of 173.2 million barrels per year (representing 30.62% of total production) in 1992, and 156.7 million barrels in 1995, or about 30.7% of the entire production of all the operating companies. However, its production reached a peak at 177.3 million barrels in 1995, or about 30.7% of the entire production of all the operating companies. The second biggest producer in terms of production was El-Waha with 145.0 million barrels in 1995, 143.4 in 1996, 138.7 in 1997 and 108.2 million barrels in 2000, representing 28.4%, 26%, and 20.81% of total production respectively.

Despite the UN sanctions imposed in 1992 total oil production fluctuated between 500 and 550 million barrels per year throughout the sanctions period, with an average daily production of 1.390-1.500 barrels per day.

3.7.2 Domination of the State over Economic Activities

All development plans since the early 1970s were aimed at achieving a group of strategic objectives, such as the diversification of production and exports, reducing dependence on oil, achieving self-sufficiency, and reducing disparities between incomes[4]. These strategic objectives were transformed into policies, programmes and projects executed by the public sector, emphasising the leading role of this sector in economic activity, under the umbrella of socialist transformation policies in the context of the exclusive economic planning associated with centralisation of the relevant administrative and bureaucratic procedures (Alqadhafi, 2002).

The Economic and Social Transformation Plan for the period 1976-80 determined the scope of both the public and private sectors through the distribution of capital. The share of the public sector was set at 86.6% of total investment, compared to 13.4% for the private sector. For example, in agriculture, 93.1% went to the public compared to 6.9% to the private sector (Alqadhafi, 2002). Likewise state ownership has dominated the manufacturing sector, where its share was 97.7% compared to only 2.3% for the private sector. The main reason behind this policy was to boost manufacturing in order to achieve the anticipated diversification of resources in accordance with the general objectives.

The developments witnessed by the economy were accompanied with a set of laws and legislations confirming the domination of the public sector and its institutions. The most important of these are as follows:

- Law No. (31) of 1970 regarding insurance companies, aiming at establishing full control of the society over these companies.
- Law No. (86) of 1975 for organizing automobile trade, distribution and spare parts, restricted to six companies (later merged into two companies only).
- Decision of the Council of Ministers issued on 24 April for the articles of Association of the General Company for Marine Transport.
- Decision of the General People's Congress in its 1st Ordinary Session for 1976 nationalizing foreign trade.
- Decision of the General People's Congress in its 2nd Ordinary Session for 1976 establishing consumer co-operative societies.
- Decision of the BPC as formulated by the General People's Congress in its 3rd Session for 1977 expanding the development of commercial markets.

- Decision of the GPC dated 15 Nov. 1997 for permission to establish a joint-stock company for cargo transport.
- Law No. (4) of 1978 specifying certain provisions for real estate ownership and its amendments.
- Decision of the GPC dated 6.5.1979 restricting the import of goods and commodities to public bodies, companies and establishments.
- Decision of the GPC dated 29.12.1979 restricting wholesale distribution to public bodies, companies and establishments and the opening of centres for this purpose in all municipalities of Libya.
- Decision of the GPC dated 28.3.1981 for achieving full control of the distribution of clothes, textiles, shoes, household equipment, spare parts and building materials.

It is clear from the above mentioned decisions that the state dominated most economic activities.

3.7.3 Libya as an Open Economy

Libya has had one of the most open economies. Foreign trade indicators show that the rate of openness of the economy was 81% in 1970, rising to 94% in 1975 at the peak of the oil boom when oil prices saw significant increases. Yet, the rate of openness then fell to reach 28% in 1984 and 20% in 1985, before rising again to 55% in 1986. Generally speaking, there were considerable fluctuations in the rate of openness during the mid 1980s, where it suffered a severe decline following the crisis in international oil markets, and due to quantitative polices for reducing imports.

However, the openness of the Libyan economy has been mainly associated with the foreign trade related to import and export activities rather than the flow of capital. Also, the flow of individuals is rated second as an unseen operation, despite the efforts made for the country to become less dependent on the outside world through the implementation of policies to reduce imports. Nonetheless, these imports have remained significant, representing 42% in 2001 (Almansouri and Alfarisy, 2004).

In general, all indicators point towards the openness of the Libyan economy to the outside world, a fact that emphasises the role of foreign trade in economic development in Libya.

3.7.4 Government Expenditure

This feature involves the expansion in public spending resulting from the domination of the public sector over economic activity coupled with the role undertaken by this sector in developing other sectors, as mentioned earlier. However, the huge oil revenues for many years have been a great help to the public sector in undertaking its duties. These duties include the development and transformation plans that significantly improved the standards of living for the people in the early 1970s and 1980s. Yet, following the deterioration of oil prices in the mid-1980s and the subsequent decline in oil revenues, the state failed to continue the funding of its development plans. Moreover, the sharp decline in local earnings had serious effects on different areas of services and production (Alqadhafi, 2002).

Consequently the Libyan economy suffered a number of setbacks during that period. Most significantly huge deficits emerged in the general budget and the balance of payments, and yet the poor performance of public projects and the failure of these projects to compensate for dwindling oil revenues were the main cause behind this predicament. Also, the lack of competitiveness of these projects added insult to injury, producing further deterioration in the balance of trade, and their continuing need for subsidies itself produced further deficits. However, to sort out this problem a number of measures were considered, including introducing import restrictions in order to deal with deficits in the balance of trade, and cutting public wages. This led to underperformance, corruption and, above all, to the emergence of black markets.

Given this situation, it became evident that the viability of the system was in doubt, necessitating a new definition of the role of the state, and attention thus focussed on the private sector. Table 3.8 and 3.9 show government spending for domestic development projects:

Table 3.8 Government Spending for Domestic Development Projects $m, 1962-1983

YEAR	Government Spending	YEAR	Government Spending
1962	92.86	**1973**	1367.65
1963	117.86	**1974**	2544.12
1964	160.71	**1975**	3070.59
1965	217.86	**1976**	3485.3
1966	296.43	**1977**	4117.65
1967	360.71	**1978**	4976.47
1968	528.56	**1979**	5902.94
1969	865.22	**1980**	6914.71
1970	789.29	**1981**	8797.06
1971	1096.55	**1982**	8532.35
1972	1196.67	**1983**	8479.41

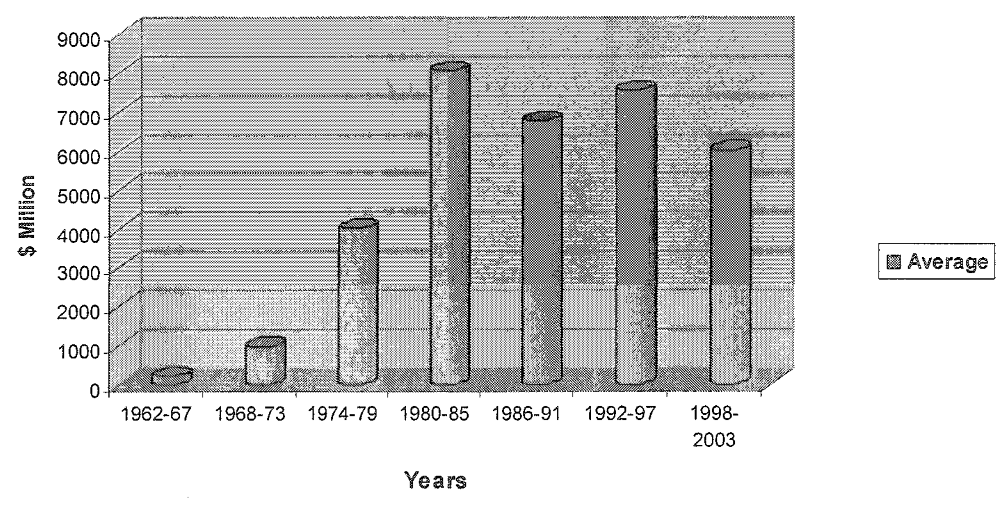
Source: *CBL, Various Issues; AMF (2000).*

Table 3.9 Government Spending for Domestic Development Projects $m, 1984-2003

YEAR	Government Spending	YEAR	Government Spending
1984	7911.76	**1994**	6261.11
1985	7711.77	**1995**	6808.57
1986	8312.5	**1996**	7845.95
1987	6252.94	**1997**	8546.15
1988	6062.86	**1998**	8786.84
1989	6050	**1999**	6743.48
1990	6522.86	**2000**	7090.2
1991	7451.43	**2001**	6487.6
1992	9183.33	**2002**	3207.71
1993	6662.5	**2003**	3707.66

Source: *CBL, Various Issues; AMF (2000).*

Figure 3.2 Average Government Spending for Domestic Development Projects 1962-2003



Source: *CBL, Various Issues; AMF (2000).*

* Researcher's calculations.

3.7.5 Quality of Labour

Shortages of skilled labourers in the aftermath of oil discovery and its exportation in 1962 became a major problem. Therefore, the fact that Libya is capital-rich but labour-poor has posed a considerable challenge to development. However, the Libyan economy has been unique in its low power to accommodate capital, which limits its chances for investment. This problem haunted the economy during the early years of development.

Yet, despite the structural changes introduced, development efforts have still faced huge challenges caused by the rarity of skilled labourers (Abu Snina, 1997). This is contrary to the situation in other developing countries, where the main problem has always been shortages in capital and not the availability of a skilled workforce.

Hence, Higgins (1968) suggests that the Libyan example is unique, and cannot be related to any of the known development models that emerged after the Second World War or in the early 1960s (Biltamer, 2003). Therefore, it can be concluded that the Libyan economy is to a great extent dependent on foreign labour, which constituted around 47.7% of the total workforce in 1983.

3.7.6 The Ineffectiveness of Manufacturing Policies

In the early development plans, the manufacturing sector was to be sponsored and encouraged. For example, the manufacturing sector was allocated LD3.02 billion during the transformation plan of 1981-1985, which represented 16% of total investment in all sectors (Alqadhafi, 2002).

However, as has been mentioned before, the public sector has dominated economic activities, with its biggest share representing 86% during the transformation plan of 1976-1981. Also, manufacturing strategy has mainly targeted import substitution. Thus in the wake of the deterioration in oil revenues, with no significant changes in spending, the state failed to finance the import of goods to meet increasing demand.

However, despite the huge investment, local production also failed to provide the required amounts to meet that demand[5]. In general the Libyan manufacturing sector has been characterised by its failure to utilise available production power and its high costs in what is known as the misuse of economic resources. This generally means a failure of obtain the best possible returns/revenue from utilizing natural, human and material resources (discussed further in the next chapter). For example, the industrial sector had investment allocated to it exceeding LD 4315 million involving more than 250 factories and employing more than 47000 producers/workers, yet average rates of production ranged between 9-59% of real production power (Mirza, 1995, 1998; and Alqadhafi, 2002).

Table 3.10 Factories whose Actual Productive Capacities did not Exceed 30% of Maximum Capacity until 30.09.1999 (Light Industries)

Factory	Proportion of Achieved Production to Maximum Capacity
Fruit Factory in the Green Mountain	13 %
Tomato Pasta Factory, Sebha	1 %
Fruit Factory, Derj	1 %
Dates Factory, Hoon	26 %
Al-Nahda Agricultural Factory, Zawia	10 %
Vegetable and Fruit Factory, Zawia	24 %
Date Syrup Factory, Khoms	28 %
Olive Oil Extraction and Refining Factory, Isbea	4 %
Tin Cans Factory, Zawia	75 %
Flour Mill Tobruk	1 %
Automatic Bakery, Tripoli	8 %
Automatic Bakery, Misurata	6 %
Wall Tiles Factory, Gherian	28 %
Plane/Flat Glass Factory	29 %
Clothes Factory, Derna	27 %
Carton Boxes Factory, Nasseria	27 %
Plastic Factory, Benghazi	23 %
Plastic Factory, Beida	21 %
Gases Factory, Tripoli	12 %
Red-Brick Factory, Sawani	26 %
Al-Amal Washing Machines Factory, Tripoli	2 %
Refrigerator Factory, Rujban	2 %
Average*	**18 %**
St.D*	**0.17**

Source: *Alqadhafi (2002).*

* Researcher's calculations.

Table 3.11 Factories whose Actual Productive Capacities did not Exceed 30% of Maximum Capacity until 30.09.1999 (Heavy Industry)

Factory	Proportion of Achieved production to Maximum Capacity
Cement Factory, El-Margab	1 %
Gypsum Factory, Sawani	22 %
Metal Works Factory, Tripoli	12 %
Lime Factory, Suk Ek-Khamis	19 %
Filter Factory, Tripoli	5 %
Lime Factory. Benghazi	10 %
Red-Brick Factory, Benghazi	5 %
Cement Moulds Factory, Benghazi	14 %
Average	**11 %**
St.D	**0.07**

Source: *Alqadhafi (2002).*

* Researcher's calculations.

In light industry, production decreased in 17 commodities out of a total of 31 products, or by 55%. The production proportion to maximum capacity realized in such industries has ranged from 3% to 81%. In addition, realized production proportional to the envisaged production ranged between 4-112% until 1990[6]. Therefore, the state understandably interfered and attempted to reverse the decreasing productivity of factories through liquidation and nationalization.

The following list shows the important companies belonging to the industrial sector:

- Public Furniture Company.
- Libyan National Textile Company (the Case Study).
- National Trailer Manufacturing Company.
- National Company for Soap and Cleansing Materials.
- Aman Company for Tyres and Batteries.
- General Company for Pipes.
- Arab Company for Manufacturing and Bottling.
- National Company for Foodstuffs.
- General Company for Plastic and Artificial Sponges.
- Libyan Company for Tractors.

In conclusion, there has been a lack of integrated planning policies for specifying the needs of the national economy for factories and productive units in the light industry sector during the economic developments plans.

3.7.7 Limited Role of Financial and Monetary Policies

The authorities have not resorted to specific financial or monetary policies. Instead the state has adopted quantitative commercial policies, in keeping the foreign currency under control. For example, with the exception of customs tax, the taxation system has remained unchanged and taxes on all commodities have not been affected. However, to deal with the balance of payments deficits, a direct quantitative policy was adopted aiming to reduce imports. In 1982 a new policy, known as "commodity import budgeting", was introduced. This involved the allocation of funds for every imported item. Moreover, remittances for resident individuals were reduced.

Also, in order to deal with the many flaws in the balance of payments and the general budget, in the late 1980s the state resorted to tougher trade policies such as restrictions on and the monitoring of foreign exchange, which were thought to represent the most effective means for keeping imports under control. Furthermore, the government imposed indirect taxes to increase state earnings, as such taxation is easy to charge and very difficult to escape. In sum, the above have been the most important characteristics of the Libyan economy, which emphasise the importance of the outside world to this economy as well as its dependence on oil as the single most significant source of income.

3.8 Conclusions

Over the last century, the Libyan economy has been completely transformed from being one of the poorest countries over the world to having one of the highest annual per capita incomes. Before the discovery of oil, the Libyan economy was primarily dependent on agriculture, which was constrained by climatic and other conditions. Furthermore, Libya experienced difficult economic conditions such as limited resources, low levels of trade, high rates of unemployment, low skills levels, a lack of education, and no banking and monetary system. Therefore, these conditions left the state totally dependent on foreign and military aid. This situation changed significantly since the first shipment of crude oil in 1962, improving GDP growth, imports and per capita income. However, the phase of the rentier state began when Libya became heavily dependent on oil revenues. On the other hand, development plans commenced from 1963 until 1986 with different goals, objectives, and priorities. The first plan concentrated on the modernisation of the national infrastructure, whereas the second and the third development plans in the 1970s focused on self-sufficiency by encouraging higher agricultural production and industrial activity aiming to reduce dependency on oil revenues. At the end of the 1970s, the government adopted a new socialist economic system.

Hence, the Libyan economy became centrally planed and controlled by the government. Consequently, all activities became state-owned and the private sector was completely abolished until the end of 1980s. As a result of its dependence on oil revenues, the Libyan economy was adversely affected by oil price fluctuations since the 1980s, and oil revenues fell from $14.2 billion to $5.2 billion. Therefore the Libyan economy began to face severe difficulties as many projects had to cease while others were frozen. This acute situation forced the government, led by Colonel Mumer Alqadhafi, to introduce a new economic system bringing about privatization in the form of small and medium-size enterprises.

This chapter has discussed the Libyan economy in general and its main characteristics in particular, starting by reviewing the historical background and the political system from ancient times until the Italian occupation, the British administration and after. Moreover, this chapter has examined economic issues related to the evolution of the Libyan economy over the past three decades. However, despite the efforts made by the state to diversify economic resources, it is clear that the contribution of non-oil economic sectors to GDP has remained low compared to the huge spending on these sectors over the past three decades. Finally, it can be argued that the discovery of oil has been the most important element in improving and developing the country's economy, and therefore has made a major contribution in making the Libyan economy one of the most stable in the region.

Endnotes

[1] This is typical problem within a dual economy where are sector benefits at the expense of the other sector. This is something refers to the "Dutch disease".

[2] National Authority for Information and Documentation, 1994.

[3] For more details, see Hawdana (2003); Mirza (1995).

[4] The Secretariat of Planning (1976), Socio-economic Tri Development Plan (1973-1975), Tripoli.

[5] People's Board for follow-up- annual report submitted to the Basic People's Conference in the second session for 1989.

[6] Evaluation Study of Industry Sector, A report by the General People's Committee for the Apparatus of Public Control.

CHAPTER FOUR
PRIVATIZATION IN LIBYA

4.1 Introduction

Almost every country is divesting some or all of its SOEs to the private sector in managing and financing activities previously owned and operated by the state (Kikeri and Nellis, 2004). Although, it is widely accepted that private enterprises are more efficient than state enterprises, the debate on privatization continues as privatized firms struggle to adapt to the rules of market and fair competition.

This chapter gives a brief overview on the privatization trends in Libya as well as sheds light on certain specific elements of the Libyan manufacturing sector. The following main points are discussed:

- The Libyan economy and state domination.
- Privatization trends and development.
- The general framework of economic practice.
- Obstacles to privatization in Libya.
- Determinants of the manufacturing sector in Libya.
- The chances and requirements of economic reform and privatization.

4.2 The Libyan Economy and State Domination

The Libyan economy has always been and still is dominated by the public sector. This domination was initiated by state ownership of all production facilities through nationalisation and the establishment of public projects. Hence, most economic activities such as manufacturing, banking, local and foreign trade, local contracts, logistics, transport, and telecommunications came under the control of the public sector. By contrast, the role of the private sector diminished and almost disappeared as can be seen from the statistics related to actual investment during the period 1970-2002. 82% of total investment undertaken by the public sector during the period 1970-2002, compared to only 18% of investment made by the private sector as shown in table 4.1 below:

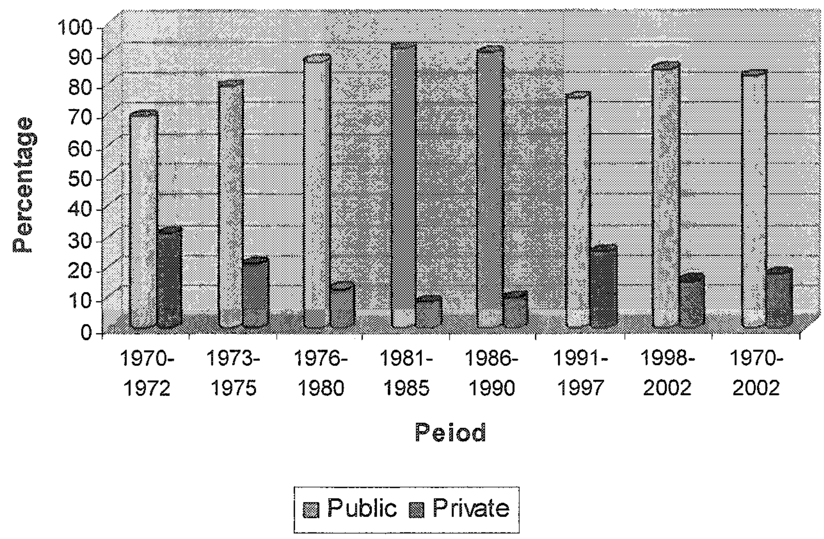
Table 4.1 Public and Private Sector Investment 1970-2002

Period	Public Sector		Private Sector		Total
	Value	%	Value	%	
1970-1972	4957.6	69.1	2216.8	30.9	2247.7
1973-1975	15090.2	79.1	3987.1	20.9	4008
1976-1980	34736	87.2	5098.8	12.8	5111.6
1981-1985	28963.6	91.7	2621.5	8.3	2629.8
1986-1990	7561.8	90.2	831.3	9.8	841.1
1991-1997	8724.6	75.4	2846.5	24.6	2871.1
1998-2002	7177.8	84.6	1312.6	15.4	1328
1970-2002	107211.60	82.47	18914.60	17.53	18932.13
Average*	15315.94	82.47	2702.09	17.53	2719.61
St.D*	11836.00	8.29	1476.98	8.29	1477.65

Source: *Libya Revolution in 30 Years 1969-1999, Jamahiriya Dar.*

* Researcher's calculations.

Figure 4.1 Public and Private Sector Investments



Source: *Libya Revolution in 30 Years 1969-1999, Jamahiriya Dar.*

It is clear from Figure 4.1 that the private sector played a significant role in investment until 1975 after which it lost ground to the public sector. Nonetheless the main purpose behind the dominance of the public sector was to boost the development process, despite the fact that the achievements of the public sector fell short of all expectations. It could be said that, despite all the efforts made by the public sector, it did not live up to the people's expectations, with its achievements not matching the huge investment input. Moreover, it was expected that revenues from the investment projects could be used to fund the overall budget, and yet the public sector continued to be a burden on the overall budget. This was a clear indication of the underperformance and malfunctioning of the public sector.

This can be concluded from economic indicators such as the size of revenues or losses, capital returns, and the power to compete in external markets, where in all cases performance was discouraging.

For instance, a survey conducted by the GPC for planning in 1987 showed that significant losses were reported in 89% of units in the food industry, 100% of units in the building industry and 50% of units in engineering, mining and electric power sectors[1]. These results clearly point to the fact that most public sector organisations suffered sustained losses due to decreasing revenues and low production, which rendered them a huge burden on the public budget. Actual productive power was far lower than expected, and most public factories either had no orders or otherwise production in these factories faltered even at the best of times (Hawadana, 2003).

Even in cases of adequate production, marketing became a major problem, either because of the low quality of the products or high production costs making these products uncompetitive with similar imported products.

4.3 Privatization, Trends and Development

Economic restructuring in Libya up to the mid 1980s entailed a high degree of interference by the state in the domains of production, distribution and investment. This interference involved the issuing of a vast set of regulations, laws and restrictions concerning price-fixing, protection and commercial financial and monetary policies. At that time the role of the private sector has retreated to the lowest possible level in all activities, and during the 1980s and afterwards the publicly owned productive units (in particular, industrial ones) were unable to produce enough surplus to recover the capital spent on their establishment or the necessary hard currency to diversify sources of income.

Most of these industries (except for the hydrocarbons industries) were directed towards the substitution of imports and were protected by a framework of quantity protection, which used to be made up through imports budgets. Generally, the profitability of these industrial enterprises was very low, and a good number of them continued to make losses. This led to the public budget having to shoulder the burden (Mirza, 1998; Hawadana, 2003). A number of related factors led to this low performance. They seemed to be so closely related to the secretariat of industry.

It became evident that the situation could not be rectified because of the institutional structure and the economic policies practiced. Important factors are include: (1) lack of hard currency and the insufficiency of banking credit or delays in obtaining it, which contributed to shortages of spare parts and other requirements for production and a scarcity of financially and technically trained labour force; (2) excessive of unskilled labour force; (3) the difficulty of changing prices for the final products as the secretarial of economy controlled price levels; and (4) low standards of managerial performance and a consequent lower production performance.

It was clear that a solution to these problems could only be found through radical measures to be applied on a wide scale, including the internal status of these institutions and external conditions. In addition, it became clear that it was impossible for these institutions to continue under the monopoly or management of the state. Thus came the trend to privatize organizations in the fields of textiles, food, building materials, and chemicals during the end of 1980s.

This contributed to a foregone conclusion that the privatized organization suffered from deterioration in performance and production similar to, if not worse than their modest output when they were part of the public sector. This applies especially to the sector of transformational industries, about which there are some suitable data (even though this is insufficient and inaccurate more often than not) which make the evaluation results possible.

It is clear that the productive performance of the branches of the appropriated industries as from the year of appropriation was very modest for the annual decline rate of production (measured by stable price) reached 4% during the periods 1988-1993[2]. Perhaps the methods followed in the transfer of ownership were partly responsible for that because these firms had not been restructured before the appropriation process in such a way that secures good performance afterwards. Furthermore, these firms continued to work under the umbrella of the public foundations. Furthermore the transfer of ownership was limited to these working in the firms.

All of this contributed to the continuation of the same practices in management, organization of production and pricing. On the other hand, the partnerships founded in response to the laws opening the way for the private sector to engage in economic activities kept no chronological data sufficient to allow any diagnosis of the trends in the development of economic performance and production. Yet, the mere fact of their establishment and the development of their production since 1985 may very well show that private activities do respond to opportunities which give fresh impetus to investment in productive fields in order to generate profits.

The following table shows the average rate use of production capacity for the manufacturing sector in Libya from 1985-1996[3]:

Table 4.2 The Average Rate Use of Production Capacity (%)

Year	1985-1988		1989-1993		1994-1996	
Factories	Average*	St.D*	Average*	St.D*	Average*	St.D*
Food Products	46.33	3.47	51.60	2.70	26.02	26.58
Wholemeal	55.48	6.12	69.30	10.02	35.23	31.91
Milk Products	26.25	2.06	34.43	8.56	17.82	15.07
Canned Food Products	27.58	7.70	37.73	4.77	19.44	15.85
Fodder	74.75	4.69	64.93	8.09	38.11	36.88
Clothes and Rugs	64.85	4.12	57.18	6.17	33.08	32.42
Textile	64.85	4.12	57.18	6.17	33.08	32.42
Carpets	83.45	5.84	68.13	17.89	43.83	37.75
Blankets	35.70	5.64	49.98	16.68	27.00	19.72
Leather	57.50	13.38	58.25	6.55	33.92	27.80
Shoes	64.75	11.92	43.20	12.28	33.04	25.73
Building Materials	36.13	3.03	39.63	5.01	20.95	19.62
Cement	41.15	7.08	64.10	2.73	28.77	29.15
Flag Stones	15.13	3.56	7.28	1.99	6.99	5.86
Point	63.55	3.67	54.33	4.65	31.55	31.85
Tupes	28.55	2.05	44.60	28.61	25.95	17.63
Red Brick	28.23	5.86	27.83	6.65	17.14	12.58
Metal Tupes	41.98	7.10	49.50	7.58	26.54	22.38
Irrigation Metal Tubes	39.43	20.54	54.65	28.71	35.83	0.00
Cables and Wires	46.85	10.05	51.65	20.82	32.34	20.11
Petrol-Chemicals	43.70	19.52	45.18	18.64	31.76	14.66
Ammonia	37.45	3.67	35.08	8.73	21.23	17.51
Urea	66.43	5.80	64.03	16.90	38.29	31.45
Methanol	60.65	20.02	30.75	0.64	28.01	25.07
Engineering Industries	61.25	18.13	31.10	8.91	29.85	22.83
Tractors	89.28	19.15	86.45	11.67	51.63	41.96
Refrigerators	41.88	11.44	55.15	10.81	29.82	22.26
Cookers	50.68	20.62	53.40	4.48	32.29	23.76
Washing Machines	23.00	10.01	47.65	16.80	24.36	16.41

Source: *A study by the Ministry of Economic, Trade, Planning 1997.*

* Researcher's calculations.

4.4 The Domination of the Public Sector over Local Investment

The requirements of the economic and social development plans during the period 1973–1985 meant that the public sector assumed a major role within the context of the socialist transformation policies adopted during that period. From the legislation that accompanied the socio-economic transformation during the period 1970-1980, the increasing role of the public sector is in clear contrast to the diminishing role of the private sector in the economy. This can be emphasised by two facts. These are: (1) since 1973, all development plans aimed at diversifying sources of income and therefore diversifying the base for economic production, which meant rendering the economy less oil-dependent as well as closing the gap between individual incomes by achieving a balanced regional development; (2) the socio-economic transformation plan of 1976-1980 determined the activities of both public and private sectors through the redistribution of investment capital among the different economic sectors. Investment capital was distributed between the public and private sectors during the period 1973–1980 as follows:

(i) The public sector took 86% of total investment during 1973–80, whereas the remaining 14% went to the private sector.

(ii) The share to the public sector of the total investment in agriculture was 93.7% while the remaining 6.3% went to the private sector.

(iii) Of the 21.5 of the total investment allocated to the manufacturing sector, the public sector took 19.2% compared to 2.3 % for the private sector.

(iv) Of the 18.9% of the total investment allocated to the logistics and transport sector, the public sector took 15.3 % compared to 3.6 % for the private sector.

(v) The housing sector was allocated 15.2% of total investment, 9.7% of which went to the public sector and the private sector took 5.5%.

(vi) Other services such as insurance and real estate were allocated 0.1% of the total investment, all of which went to the public sector.

The domination of the public sector in the development plans was confirmed by a number of laws and decrees. The most important of this legislation are the following[4]:

- Law no. (31), 1970, concerning insurance companies and aiming at keeping these companies under state control.
- The resolution of the General People's Congress in its first meeting (1976), for the nationalisation of foreign trade.
- The resolution of the GPC on 06.05.1979, which limited the import of consumer goods to public companies.
- The resolution of the Basic People's Conferences in its normal third session for the year 1982, drafted by the General People's Conference in the second normal session 1983, which concerned the organisation of trade and banned individuals from engaging in any trading activities. This law also allowed to the organisation of trade only through markets controlled by the public sector.

Whatever the causes that led to the domination of the economy by the public sector, it has to be acknowledged that this sector has contributed greatly to the execution of many infrastructure projects, which are a prerequisite of any socio-economic development activities.

However many problems arose. These problems pertain to the nature of economic performance under the domination of the public sector, and include the misuse of resources, deterioration in production levels, high production costs, the poor supervision, and the poor funding of public schemes.

As discussed in the previous chapter, the domination of the public sector over economic activities constitutes one of the main characteristics of the Libyan economy. This domination came into existence in the aftermath of state ownership of the production facilities. Accordingly, most economic activities, such as foreign and local trade, manufacturing, banking, public facilities, logistics and transport, came under the direct control of the public sector. Consequently this diminished the role of the private sector in the economy to the point of complete elimination.

However, the problems associated with the establishment of the public sector in assuming a leading role in the Libyan economy prompted increases in public spending resulting in deficits in the overall budget. Moreover, the drops in oil prices in the early 1980s made these problems even worse, as did the drop in taxation revenues generated from private sector projects. These problems made it necessary to review and reassess many public schemes, encouraging individuals and workforces to take part in the ownership and management of their organisations.

4.5 The General Framework of Economic Practice

In the early 1990s a number of pieces of legislation were issued concerning the transfer of ownership of some public sector projects to the private sector. This legislation outlined the general framework and the methods to be used for the implementation of privatization in Libya, as follows:

4.5.1 The Legal Context

Law No (9) of 1992 is concerned with the practice of economic activities. Article (2) of this law states that: "individuals and legal persons have the right to engage in economic activities in areas such as production and distribution and the delivery of services including areas such as education, health, agriculture, manufacturing, trade, tourism, transport, real estate, funding of projects etc, and also professional activities such the legal practice, medicine, engineering, accounting, registration of legal documents, etc". Moreover, article (3) of this law emphasised that the economic activities referred to by article (2) could be practiced through the following institutions which are: (a) people's limited companies; (b) public organisations; (c) cooperatives; (d) family activities; and (e) individual activities. In addition, Law No (9) was followed by a number of resolutions decreed by the GPC. The most important of these resolutions were: (a) GPC Resolution No (300) for 1993, regarding regulations of the ownership of public companies and institutions and other public sector economic units. Article No (1) of the first chapter of these regulations, the "preliminary provisions" stipulates that implementation is the responsibility of public organisations and public companies; and (2) People's Limited Companies may be wholly or partially owned by the state or by a legal personality.

All SOEs are described as "public assets" as stipulated by Article (87) of the civil law. With regard to the banking sector, the banking regulations for 1963 were replaced by Law (1) for 1993, which regulates banking, currency and credit. This law gave citizens the right of ownership of commercial banks as well as allowing individuals to establish public limited companies (banking companies) provided the capital of the company was not less than LD 10 million at the minimum, distributed in the form of nominal shares at a price of LD 10 per share. The new law also allowed the establishment of agencies or offices representing foreign banks in Libya, and gave the right to individuals to keep foreign currency as well as to open foreign currency bank accounts.

4.5.2 Methods of Assessment of Institutions Subject to Privatization

Law no (9) and its executive regulations, and Resolution (300) of the GPC for 1993 clarify the procedures for the transfer of the ownership of facilities partially or wholly owned by the state to individuals. This transfer was to take place according to stated measures and procedures prescribed by the law assisted by a central committee established for this purpose. However, this central committee was to undertake the formation of subcommittees for the assessment of the facilities in question. The task of the subcommittees was to make an assessment of the managerial and financial status of these facilities prior to reporting to the central committee, which would recommend one of the following solutions: (1) giving the right of partial ownership to individuals; (2) transferring entire ownership and putting its shares up for sale; (3) completely liquidating the facility and the termination of its legal existence.

The above method indicates that all of the procedures were dictated by the urgent need to assess the organisation financially and to transfer it if economically feasible to the private sector. Also the main aims were to establish a broader base of ownership; to give opportunities to as many individuals as possible; and the priority for ownership was given to the workforce of the facility in question.

4.6 Obstacles to Privatization in Libya

In the aftermath of the economic domination by the public sector for such a long time, privatization would not be an easy task. Therefore, many unforeseen problems and difficulties may arise, which need to be urgently sorted out. Sections 4.6.1, 4.6.2 and 4.6.3 will discuss some of these problems.

4.6.1 Suspicion Concerning the Credibility of the State

Recent years have witnessed many flawed decisions which have negatively affected the economic interests of the private sector. Unfortunately, these practices have rendered the private sector sceptical about the credibility of the state. For example, in the early 1970s the private sector was encouraged by the state to establish public limited companies. However, following their huge success, these companies were confiscated by state-supported mobs. Another example concerned cooperatives and SOEs that were given up by the state to the private sector. The new owners realised that they could not import the necessary spare parts to run these facilities, the main reason being the failure of the CBL to supply the necessary foreign exchange. The result was the complete breakdown of these facilities, and the termination of their activities.

Such practices may be the root of uncertainty in the private sector as well as its lack of confidence in government intentions in selling public facilities, and therefore its abstention from buying shares in the privatised public facilities.

4.6.2 Bureaucracy and Surplus Workforce

The problem of bureaucracy might represent a stumbling block for the privatization of the Libyan economy, unless drastic measures are taken to remove it. Privatization policies might possibly face strong opposition from many parties, such as pressure groups including public sector institutions, producers' associations, the management of target companies and some groups of employees who feel that they might be the losers (this issue is discussed in more detail in chapter 5).

Most public sector schemes suffer from huge number of redundant workers, which is the direct outcome of misguided recruitment policies that were dictated by social and political factors rather than real need. Therefore, this surplus workforce would be one of the major problems that would face the privatization process, as huge numbers in the target schemes would possibly be made redundant.

To solve this problem, many measures could be taken by policy makers, such as retraining those made redundant, improving their skills in order to join other organisations, organisations with limited workforces being given priority in the privatization process, workers made redundant should be encouraged by the state to establish their own businesses whether by partnership or individually, and lastly the privatised schemes should be assisted financially in order to motivate them to make use of the surplus workforce through retraining.

4.6.3 Public Sector Debt and the Private Sector Monopoly

One of the problems facing privatization in Libya is the huge level of debts and financial commitments of the targeted public sector schemes. The gravity of the problem stems from the fact that some of these financial commitments, such as social insurance, wages, taxes, and pensions, cannot be subject to delay and therefore need urgent treatment. However, what makes things worse is the fact that public institutions are accountable for these debts, and most of them are considered as dead loans.

As a result of lack of competitors, some organisations from the private sector tend to monopolise the market. This monopoly may affect quality and prices, and above all may interfere with social objectives. Hence, in this sense privatization could involve the transformation of the monopoly of the state to become the monopoly of the private sector.

This could occur for two main reasons which are: (1) the state may try to safeguard the private sector from competitors. This could happen either by banning imports of similar goods, or otherwise putting high tariffs on these goods; and (2) the private sector may not risk establishing projects that may compete with already existing ones, due to the high cost of investment.

Therefore, this makes it necessary for the state to interfere in order to disrupt monopoly through quality control, price control and consumer protection.

4.7 Determinants of Privatization and Sources of Opposition

The success of privatization is a function of the favourable conditions available prior to the execution process. Nonetheless, there are many examples pointing towards the initial failures of the methods that have been adopted. In this context, Nellis (1999) emphasises the following examples:

(i) The privatization programme undertaken in Russia between 1992 and 1994 transferred ownership of some 15,000 firms, mainly to insiders through vouchers. The main worry was that the managers and the workers combined controlled about more than two thirds of shares in the average privatized firms.

(ii) By the year 1995 in a two-phase privatization programme the government of the Czech Republic divested more than 1800 firms. Results in 1998 were starkly negative, with an annual GDP contraction of two per cent. There were many reasons for this, but a large amount of blame on the way privatization was carried out.

(iii) The process of restructuring the economy in Poland that started in 1989 led to the redundancy of huge numbers of the workforce and a subsequent increase in unemployment as well as a sharp drop in the gross national product between 1990 and 1991 (Sanford, 2005). The initial outcome in Egypt was no less dramatic (Hawadana, 2003).

(iv) In Kazakhstan, Mongolia, Moldova and Albania the privatization process was not a success either, and they have not yet gained much from this effort. It appeared that dispersing ownership among an inexperienced population has not lead to effective governance of firm managers (Nellis, 1999).

This usually happens in the wake of privatization when the same management of the public organisations remains even though these organisations have been transferred to private ownership. Yet, the situation will remain the same when a single public organisation is privatised, as this organisation will eventually retain its monopolistic nature especially in the absence of foreign competition (Hawadana, 2003).

(v) Public perceptions surveys conducted by the International Development Research Centre (1998) have revealed the disappointment of the different populations with the privatization process. The results showed that nearly 70% of the Russian population believed that they have been far better off before privatization, whereas 60 to 80% of the population in Sir Lanka expressed the same feeling. Likewise 67% of the population in Latin America felt that they gained nothing from privatization (Martimort and Straub, 2005).

However privatization, like any other process involving structural changes in the economy, cannot secure success from the start when the change is not compatible with the prevailing conditions, and usually a transitional period is needed that may extend to ten years. Yet, the initial outcome may be hazardous and bitter when the conditions are not favourable, which will lead to strong opposition. Those who oppose privatization will take the initial outcome as a pretext to stop the programme.

The three major sources of opposition to privatization and restructuring are labour unions, industrial managers in SOEs, and political groups of a nationalist or populist bent (Centre for International Private Enterprise, 2004).

In this regard the workforce of the sectors to be privatised have every right to be worried about losing their jobs and other acquired rights, and the possibility of failure of their privatised organisations under the new management. By the same token the top management of the privatised organisations have the right to express their fears of losing their jobs and the associated privileges they are enjoying whether financial or otherwise, and the uncertain future ahead of them. Governments, on the other hand, fear increases in the gap between the rich and the poor, and losing control of the economy which will lead to the loss of their political power.

Governments also fear that this situation might lead to the emergence of powerful trade unions that will organise industrial action that will destabilise the state. Another serious, yet less tangible, barrier to privatization is directly related to the question of national sovereignty and its relation to economic security. In the developing and ex-socialist countries, domestic investors often lack sufficient capital to invest in privatized firms; thereby causing concern that privatization will mean handing over the national patrimony to foreign investors. Nonetheless, all these fears are fair and valid and therefore require the anticipation of potential hazards before the start of the process.

However, fear of failure should not encourage the status quo and discourage attempts at change for the better. Accurate analysis of the sectors involved together with the prevailing environmental conditions and a proper diagnosis of economic malfunctioning and proposed alternative cures should all lead to the success of the privatization process. Thus privatization per se represents only one item of the prescription for economic reform.

4.8 Characteristics of the Manufacturing Sector in Libya

The privatization programme in Libya has been mainly associated with the manufacturing sector. Hence, it becomes necessary to investigate the manufacturing sector by highlighting its characteristics and the chances of success of the privatization process, given the fact that understanding the realities of the manufacturing sector tends to make privatization more realistic and feasible. However, understanding the nature of management under privatization is the most important issue that is likely to influence the outcome of the privatization programme (Faitouri, 2003). This may imply the adoption of specific scientific models and the application of these models or otherwise their modification to match the local economic conditions. By doing so it would be easier to sort out the potential organisations suitable for privatization. Hence, the manufacturing sector in Libya will be examined in relation to the chances of success of the privatization process with a brief reference to the role of management and its importance in this success. Moreover, the privatization of the manufacturing companies will be discussed in relation to the current situation and problems faced.

4.8.1 The Principal Characteristics

As the case with many developing countries, manufacturing in Libya began in the 1960s, beginning with quite simple initiatives making use of the expertise of the Italian community that had settled in great numbers in some of the main cities. The most important feature of this humble beginning was the small size of the production units controlled by the private sector. This small manufacturing was mainly dependent on local raw materials and the supply of products was limited to the local market. Moreover, all the activities that were established represented a typical import substitution industry where the public sector had no role to play at that stage.

However, the manufacturing sector became increasingly important in the early 1970s following the revolution, when government manufacturing policy became clear in stating that the public sector should be fully involved in strategic industries and in other industries that were unattractive to investment by the private sector. This was the beginning of the manufacturing era in Libya, leading to the emergence of a fast developing publicly owned manufacturing sector in response to the ideological convictions of the revolution (i.e. introducing fast changes to achieve progress). At the time the public sector started to shrink in other parts of the world in the late 1970s, losing grounds to the private sector in leading their economies, the idea of the economic domination of the public sector was becoming increasingly popular in Libya. This domination of the public sector did not only include the production sector but extended to include both local and foreign trade. However, the urgent question at this stage was to what extent the characteristics of the manufacturing sector had changed in the 1970s compared to the 1960s. The main characteristics of the manufacturing sector were as follows:

1. The owner manager replaced by the state.
2. Manufacturing organisations became relatively larger with the emergence of some strategic industries such as iron and steel, cement, and petrochemicals.
3. In some cases, the industry was dominated by a single organisation or otherwise limited to a few, a situation which led to monopoly in some industries protected from foreign competition by state policies that discouraged imports.

4. The general trends of economic policy targeted self-sufficiency and restricting imports by concentrating on substitute industries, i.e. local manufacture instead of import.
5. The determination to create a modern manufacturing sector as quickly as possible implied the establishment of economic relationships with other countries to secure the supply of raw materials to keep the fledgling manufacturing processes going.
6. The industrial structure was simple and naive. Production units that were established seemed to independents, the only exception being industries related to packing and preservation as such industries were by definition part and parcel of other industries and therefore affected by them.

4.8.2 Elements of Manufacturing Operation

The manufacturing sector in Libya was established with its current structure and content after hasty political decisions in the early 1970s in response to specific aims including self-sufficiency, economic development, the diversification of economic resources, providing opportunities for employment, and above all, placing the country on the right path to progress. The realisation in under-developed countries, including Libya, of the fact that a huge gap separated them from the highly industrialised countries in the 1960s and 1970s, led to a hasty bid by these countries for industrialisation without initial preparations. This decision eventually resulted in the failure of their manufacturing policies in the late 1970s (Hawadana, 2003). Most of the objectives of the establishment of the manufacturing sector in Libya were unrealistic and seemed to be inconsistent with the requirements of the executive processes.

Given the prevailing conditions associated with the establishment of the manufacturing sector in Libya, most of its units lacked the basic elements of economic performance for the following reasons:

- The feasibility studies involving most of the units as being inadequate and limited only to technical matters conducted by the executive companies.
- Feasibility studies were made assuming the availability of local markets. This assumption should have been reasonable given the fact that state policies would tend to protect the local production and globalization was not foreseeable at the time.
- The monopoly or semi-monopoly status enjoyed by some of the manufacturing units made them the only suppliers to the market irrespective of the quality of the products they provided to the customer (lack of quality control as a direct result of under-production and lack of competitiveness).
- The managers of the units were mostly engineers. Although this management was able to provide technical advice in the field of production, it was awkward and lacking know-how in marketing-related matters. The result was the failure of marketing policies, which however was concealed by the state's protection policies.
- The affiliation of the whole manufacturing sector to the secretariat of industry deprived the management of this sector from undertaking some of its basic managerial duties, leaving them to run day to day activities. They were incapable of freely directing their financial and human resources, as any relevant decision required the approval of the secretariat. In this regard, all the rules applying to the archive manager applied equally to the operations

manager irrespective of their duties, as both of them worked under the umbrella of public service regulations.

- The manufacturing organisations discovered that their operations were completely dependent on foreign countries with regard to raw materials, operational requirements and training. However, accessing those services depended on foreign currency available to them.

These facts suggest that the chances of success of the manufacturing sector were limited despite the initial positive outcomes. However, as time progressed things started to become clearer, showing a sustained deterioration in economic performance and great success in achieving social stability by providing employment to as many people as possible (all living on government salaries).

4.8.3 The Gap between the Aims and the Outcomes

Aims are considered as pre-calculated and definitive ends measurable by fixed periods of time. In other words aims usually represent steps towards better ends. On the other hand the ends are usually less definitive than the aims and are usually associated with some sort of general descriptive phrasing that makes them immeasurable. Therefore the absence of clear aims usually leaves a void (Hawadana, 2003). As already mentioned in section 4.8.2 it is clear that that the desired objectives of the government have not reached better ends accept providing employment to as many people as possible. However, if the above mentioned facts are not sufficient to make the point that the manufacturing units lacked the basic requirements for economic performance, then the following indicators should represent further support for the argument:

1. With regard to food manufacturing units operating in Tripoli, imported production materials and services were estimated at 78% of total production costs in 1988 [5]. These requirements included raw materials, subsidiary production materials, packaging and packing materials, spare parts and other items for maintenance and technical services including training abroad. The corresponding costs for the textile sector were estimated at 90% for the same year[6]. These figures give a clear indication of the almost absolute reliance on imports, whereby the realistic argument would have been in favour of manufacturing that was less dependent on foreign supplies.
2. Earlier studies had shown that 25% of food factories in Tripoli had been established in inappropriate geographic locations and that the capital equipment in 60% of these factories was out of date. The situation in textile factories was even worse.
3. The stark inconsistency between the potential production power of the manufacturing sector and actual production is reflected in tables 4.3 and 4.4 below:

Table 4.3 Potential Production, Production Targets and Actual Production Achieved in Public Companies for the Period 1/1/2001 - 31/12/2001

Values in Million LD

Activity	Potential Production Power	Production Value during the Period		Production Achieved during the Previous Year	Production Achieved during the Period		Rate of Change 2000/2001
		Target	Actual		Potential %	Target %	
Textiles Industry	77403	51230	25522	41577	33	50	39
Chemicals Industry	334356	235520	84062	112183	25	36	25
Minerals Industry	138777	82565	36510	42399	26	44	14
Cement Industry	281865	235258	176954	171137	63	75	3
Engineering And Electricity Industry	933085	370428	59080	182179	6	16	68
Food Industry	583162	480225	174516	199580	30	36	13
Total	2348648	1455226	556644	749055	24	38	26
Average*	671042	415778	159041	214016	29	42	26
St.D*	735942	446521	172006	226427	15	16	19

Source: *The General Board of Manufacture, affairs of Marketing and Production.*

* Researcher's calculations.

Table 4.4 Potential Production, Production Targets and Actual Production Achieved in Public Companies for the Period 1/1/2002 – 31/12/2002

Values in Million LD

Activity	Potential Production Power	Production Value during the Period		Production Achieved during the Previous Year	Production Achieved during the Period		Rate of Change 2001/2002
		Target	Actual		Potential %	Target %	
Textiles Industry	18277	12244	3248	9172	18	27	65
Chemicals Industry	60167	67470	22123	21724	37	33	2
Minerals Industry	44801	11473	7471	8968	17	65	17
Cement Industry	73499	56113	42165	29635	57	75	42
Engineering And Electricity Industry	243617	51790	10751	11262	4	21	5
Food Industry	136302	114272	23002	50411	17	20	54
Total	576662	1455226	108759	131171	19	35	17
Average*	164760	252655	31074	24.14	39.42	28.85	164760.71
St.D*	196556	531438	36623	17.40	21.80	24.77	196556.70

Source: *The General Board of Manufacture, affairs of Marketing and Production.*

* Researcher's calculations.

The bleak situation shown in tables 4.3 and 4.4 is not surprising. The low ratios of actual production compared to the potential productive power of 24% and 19% can be to a great extent, attributed to many reasons which mentioned earlier in section 4.8.2.

It can be concluded from the previous discussion that manufacturing performance as estimated by physical measures was very far from the desired objective. This conclusion should not necessarily apply to other strategic manufacturing sectors such as the cement industry, which could be considered by some as an exception due to its outstanding performance compared to its counterparts in other sectors.

4.9 Privatising the Manufacturing Sector in Libya

As the development of the public manufacturing sector in Libya featured hasty decisions incorporating most of the industrial and the trade activities with its two divisions internal and external trade by the year 1979. However, the reverse decision to privatize was even hastier. This decision started simply, featuring act no (9) of 1992 in relation to the engagement in economic activities, leading to the more comprehensive resolution of the GPC no (31) of 2003 issuing regulations to organise the ownership of companies and other public economic units.

The initiation of privatization assumed the availability of a market ready to buy (groups of bidders with varying buying powers, intending to buy whatever was put on sale for privatization), and yet this assumption may not have been realistic in the case of Libya given the realities of the market and the business environment.

No private sector existed in Libya, and nor did businessmen during the period between 1979 until the end of the 1980s. Yet, following the issuing of resolution no (9) of 1992 that organised the engagement in economic activities, businessmen started to emerge. These businessmen who used to belong to the public sector where some of them successful and some unsuccessful for the following reasons:

1. Their educational background was irrelevant and their experience was below the standard.
2. Failure to cope with an ever changing economic environment.
3. The recent readjustment of the value of the LD with respect to the $.
4. Relieving the restrictions on import which led to increasing the competition.
5. Lack of state funds to compensate for losses in the private sector.

These realities are still valid and might materialise for any one who might consider reinvestment. These include manufacturing units, most of which satisfy the characteristics of the manufacturing sector in Libya. They are financially burdened by commitments such as the rehabilitation of production machinery and equipment or otherwise the replacement with more modern machinery and equipment. Moreover, these manufacturing units are burdened by a workforce that renders their operations economically infeasible.

All investors, whether local or foreign, usually look for investment opportunities in a secure and transparent environment as far as business transactions are concerned. This environment should provide the necessary data to assist decision making, in addition to the availability of appropriate research and consultancy institutions capable of enhancing the system and giving solutions to practical problems. Also a flexible banking system is required with a stable political environment and an economic system that operates in response to open market mechanisms. These criteria should be met in the environment in which the organisations to be privatised operate.

Those who call today for these environmental requirements to be fulfilled are implicitly suggesting that no organisation, whether public or private, can possibly achieve economic success in their absence. Hence as long as these facts are currently non-existent they have priority over privatization.

4.10 Realities of the Public Sector in Libya

The companies and institutions of the public sector in Libya are suffering from a number of chronic economic, managerial and financial problems. These problems have emerged over the years, as stated in the annual report of the GPC for Control (2002). Some of the most urgent problems can be summarised in the following points:

1. Corruption has become rampant, including managerial and financial neglect, fraud, nepotism, mediation, bribery, excessive malpractice, power abuse and neglect of duty by some staff in public companies and institutions[7].
2. The deterioration of public services.
3. Reduced production levels and improper use of the production power available.
4. Rising unemployment.
5. The increasing quantities of products held in stock as a result of the high cost and poor quality of the products of public companies in Libya.
6. Increasing production losses as a result of continuous disruption and lack of control.
7. Failure of many manufacturing organisations to repay debts owed to other organisations.

8. Delays in the closure of the book of account and the failure to prepare budget estimates on scientific basis.
9. Delays in paying the wages of the workforces in most public sector companies in Libya, in addition to their underperformance and reduced production levels.

However, in a study into the obstacles to foreign investment in Libya, it was concluded that the most important problems that face foreign investors in Libya are: (1) inadequate infrastructure; (2) weak local administration; (3) lack of information; lack of market; and (4) inadequate business security.

Nonetheless the private sector may now be more prepared to tackle these structural problems that have burdened the public sector and rendered it ineffective.

4.11 General Information on LNTC

The Libyan National Textile Company is attached to the GPC for Industry and Minerals. It was established after the first of September Revolution and was founded pursuant to decision No. 77/1970 of the Under-Secretary of the Secretariat of the Economy with an initial capital of 1.5 million LD. One of the most important objectives of the company, according to its articles of incorporation, was to establish textile factories around the country. As shown in Table 4.5 this company produces a variety of clothes products in its 21 factories branches distributed all over the country. These branches together employ a total of 6570 workers. The company imports raw materials and spare parts from countries such as Korea and China.

Table 4.5 General Information in the LNTC

CODE	FACTORY NAME	LOCATION	TYPE OF PRODUCT	STARTING DATE OF ACTUAL PRODUCTION	DATE OF OWNERSHIP TRANSFER	TYPE OF OWNERSHIP
1	**Tripoli**	Tripoli	Clothes	1974	1988	MEBO[8]
2	**Attahadi**	Tripoli	Clothes	1974	1988	MEBO
3	**Abosalem**	Tripoli	Clothes	1980	1988	MEBO
4	**Al-Hany**	Tripoli	Clothes	1980	1989	MEBO
5	**Ganzoer**	Tripoli	Clothes	1980	1988	MEBO
6	**Garahboli**	Tripoli	Clothes	1980	1988	MEBO
7	**Qasr Ben Ghashir**	Tripoli	Clothes	1980	1988	MEBO
8	**Alazeeziya**	Tripoli	Clothes	1980	1989	MEBO
9	**Al-Zahra**	Zawia	Clothes	1980	1988	MEBO
10	**Al-Agelat**	Zawia	Clothes	1980	1989	MEBO
11	**Sabrata**	Zawia	Clothes	1980	1989	MEBO
12	**Kabao**	Western Mountain	Clothes	1980	1989	MEBO
13	**Azzintaan**	Western Mountain	Clothes	1980	1988	MEBO
14	**Gherian**	Western Mountain	Clothes	1980	1988	MEBO
15	**Zliten**	Western Mountain	Clothes	1980	1988	MEBO
16	**Tarhoona**	Western Mountain	Clothes	1980	1988	MEBO
17	**Misurata**	Western Mountain	Clothes	1980	1988	MEBO
18	**Ben-Waled**	Western Mountain	Clothes	1980	1988	MEBO
19	**Mezzda**	Sebha	Clothes	1980	1989	MEBO
20	**Sebha**	Sebha	Clothes	1980	1988	MEBO
21	**Murzuq**	Sebha	Clothes	1980	1988	MEBO

Source: *Survey Data.*

Table 4.5 shows that 8 of these factories are in the region of Tripoli, with 7 in the region of Western Mountain and three factories each in the regions of Zawia and Sebha. All of these factories produce a slightly different variety of clothing (men's and women's suits, Arabic suits, underwear, military and sport swear). The majority of the factories started production in 1980 with the exception of two which have started production as early as 1974. On the other hand, the privatization of the factories took place in the 1987 and 1988.

Table 4.6 Annual Capacity Targets (Unit) and Current Size of Workforce

Code	Factory Name	Annual Capacity Targets	Current Size of Workforce
1	Tripoli	180000	350
2	Attahadi	187000	270
3	Abosalem	200000	350
4	Al-Hany	187000	311
5	Ganzoer	190000	300
6	Garahboli	180000	280
7	Qasr Ben Ghashir	200000	302
8	Alazeeziya	200000	368
9	Al-Zahra	200000	319
10	Al-Ageiat	200000	310
11	Sabrata	185000	340
12	Kabao	200000	315
13	Azzintaan	180000	265
14	Gherian	180000	318
15	Zliten	200000	287
16	Tarhoona	160000	270
17	Misurata	200000	305
18	Ben-Waled	160000	280
19	Mezzda	187000	365
20	Sebha	160000	277
21	Murzuq	200000	388
Average*		187428	312
St.D*		13650	34

Source: *Survey Data.*
* Researcher's calculations.

Table 4.6 shows the size of the workforce of the different factories. The Murzuq factory has the largest number of 388 employees, whereas Azzintaan factory has the least at 265 workers. The method of privatization used for these factories was the transferal of ownership to the managers and employees of the factories (MEBO).

4.12 The Requirements of Economic Reform and Privatization

The oil bonanza coupled with the rise in oil prices during the 1970s gave control of both the wealth and the economy to the government of Libya. State intervention in controlling the economy was extensive and profound, dominating the manufacturing and agricultural sectors as well as both whole sale and retail trade sectors. The government also controlled insurance companies, the banks and all major services. As a result of this situation, around 75% of the workforce in Libya worked directly for the government in the companies and institutions of the public sector (Faitouri, 2003). Thus during that period, the government of Libya, faced the same problems as in most other countries that relied on a centrally controlled economy. Despite continuous complaints, even at the official level, no one paid any serious attention to the extensive structural defects and the sustained nature of the defects of a distributive state. Some of these defects included delays in administrative decisions, and government staff being inactive and irresponsible, corruption becoming rampant, and a general lack of motivation among government employees, together with a complete failure to hold anyone accountable for any improprieties (Al-Mugairbi, 2003). Nonetheless, government monopoly over earnings and its restriction of all capitalist activities, involving by private companies, led the public to engage in marginal or non-productive economic activities. Moreover, the problem became worse in the absence of reliable economic indicators and other information regarding the performance of the national economy and the financial situation of its relevant economic organisations. However, as the government of Libya started introducing economic reforms in the end of 1980s, the influence of the past economic conditions on its strategies for liberal reform was unmistakable (Al-Mugairbi, 1995).

Sizeable oil revenues, to a great extent maintained the independence of the government of Libya and this relative independence assisted the establishment and promotion of state authority. The difficulty of economic reform usually such as in rent-seeking society depends critically on the history of its evolution as well upon the ability of political and intellectual leaders to be persuasive about the need for general constitutional changes in the whole structure of social and economic institutions (Buchanan et al, 1980).

In the case of Libya this would mean ending the state monopoly, and scrapping all of the mechanisms that rendered the state capable of controlling the national economy. In other words, strategies for economic reform and privatization are sensitive issues both politically and economically, as such reforms pave the way for new institutions with new aims and priorities. However, during this process of change the interests of both individuals and groups which depended on the activities of the previous organizations would be affected. The existence of the market system as a mechanism for the economic resources would suddenly underrate the political necessity for privatization (Vandewalle, 1998).

In conclusion, it could be maintained that the processes of privatization and economic reform in Libya would imply the interaction of a number of factors, including political procedural, legal and institutional requirements, as well as the existence of clear convictions and political will for change and a high degree of transparency and accountability within a suitable legal framework, besides the development of the institutional capabilities and the enhancement of the role of the state in controlling and organising the process of economic reform.

4.12.1 The Will for Change

The process of economic reform would necessarily require the introduction of extensive and profound changes in the legal and institutional frameworks, transforming the options and priorities of public policies. This would render the success of the process a function of clear political will in support of this change, provided that this will originates from the real convictions of the political and ideological leadership concerning the importance of these reforms for socio-economic development. If reform was considered only a temporary necessity dictated by the changing internal and external conditions, the action taken might be merely cosmetic and superficial, that could easily be reversed with subsequent changes in prevailing conditions.

Therefore, the supporting political will as well as general social consensus over the general framework and the contents of economic reform is an absolute requirement for winning trust and for providing a sense of security, especially for the parties persuaded to invest in the national economy, and particularly for foreign investors. Investment capital is unlike to flow freely into the economy unless investors, whether foreign or local, feel that the environment is safe and secure and backed by the appropriate political support. Therefore conflicting laws, statements and indicators issued by state officials will not help the reform process. On the contrary this would be a clear indication of a state of uncertainty and confusion, and would above all suggest a lack of real political will for change, leading to the mistrust of potential investors and their subsequent abstention. This would bring the whole process of economic reform to a halt.

However, given strong ideological opposition to the process, it could be suggested that the privatization experiment in Libya over the past decade, has already demonstrated evidence of immature political will and lack of public conviction about both the processes of economic reform and privatization themselves and their necessity in bringing about socio-economic development. For example, many articles published in the Al-Zahf Al-Akhdar newspaper strongly criticise the process of restructuring the economy and the calls for a return to capitalist society. Moreover, all managers of SOEs were opposed to the reform process, as they feared of losing their interests and privileges (Al-Mugairbi, 1995).

4.12.2 Transparency

Economic reform is usually initiated by a number of procedures at the political legal and institutional levels. However, in this regard there are a number of initial and important requirements in such areas as government accountability, an independent judiciary, and a relatively free press, besides the effectiveness and clarity of regulations and procedures that organise the public and private sectors (Van De Walle, 1994). This implies the fair and prompt application of the law without discrimination. In this regard, attempts by Libya to attract foreign capital for investment have faced a number of difficulties due to the adverse impressions of investors with respect to the appropriateness and flexibility of the system and the prevailing levels of administrative and financial corruption as reported by various international organisations. However, most importantly, the annual report published by the International Transparency Organisation highlighted corruption levels in a number of countries worldwide. Libya was rated near to the bottom of the list regarding transparency (Altegara Magazine, 2003).

In other words, Libya has been considered as one of the countries suffering most from widespread financial and administrative corruption which would be likely to hamper the process of socio-economic development, squander the national wealth and affect the freedom and rights of the public. This report, which was published in 2003, highlighted the results of a study about international corruption based on a survey featuring the views and comments of businessmen, academics and risk analysts resident in 133 countries. The report relied on the result of 17 surveys conducted by 13 organisations in 133 countries, including Libya ranked at 121 in the list of the 131 most corrupt and least transparent states (Transparency International Corruption Perception Index, 2003). This position for Libya is a clear indication of the levels of financial and administrative corruption, involving a number of leading staff in state institutions and organisations, which has led to the deterioration of production processes robbing most economic sectors of their efficiency[9].

4.12.3 The Legal Framework

The issuing of the appropriate legislation and regulations to organise economic activities is one of the prerequisites of the process of economic reform. These should include the laws protecting the property rights, the honouring of contracts, and the rights of both producers and consumers, outlining a general framework for economic activities and the promotion of the relevant ethics and practices to establish trust in economic life, ensuring the fairness and transparency of rules and procedures, or, in other words, ensuring the rule of law. Such legislation would provide a strong indicator of the political will for change, and would provide stark evidence of the promotion of values of transparency and the rule of law. Even that might not be sufficient. Most important would be the task of enforcing the legislation and making it sustainable, effective and trustworthy. Furthermore, for the prompt and effective application of legislation suitable institutions and infrastructure should be established. Nonetheless the main dilemma facing the distributive states is often the failure of state institutions to cope, instead becoming incapable of directing and organising their new responsibilities which are so different from their previous role.

The case of Libya presents a clear example of the problems that face a distributive state regarding the development of its institutional, directive and organisational capabilities so as to enforce the laws effectively. As a matter of fact a number of such good laws exist to organise the levels of economic and social life in Libya. However, this legislation has been unreliable and subject to continuous amendment making its effectiveness and credibility questionable. On the other hand, the organisational capabilities of the state institutions in Libya are also unreliable in terms of enforcing the law. This is clear from the widespread apparent neglect of duty and the failure to create a well disciplined administration, even though the relevant legislation and regulation have already been in place.

4.12.4 The Development of Institutional Capabilities

In a socio-economic context an institution is defined as an organised system ethics, practices and rules, whether official or otherwise, that makes up and determines the relationship between individuals and the prevailing socio-economic system. On the other hand institutionalisation is a process that relies on organisations and procedures to assume its value, stability, legality and acceptance among groups and individuals, and therefore its capability to function and achieve its goals.

In other words, institutionalisation necessarily means the modification of organisations and procedures to become institutions. To the level of institutionalisation reached by any system, whether it be social, economic or political, can be determined by four criteria including the extent of adaptation of its organisations and procedures and the complexity, viability and coherence of these organisations and procedures. Adaptation involves the power of an organisation to cope with internal and external environmental challenges which can be estimated by a number of indicators such as the age of the organisation, the successive generations of leadership, and its capability to function and develop its aims. The complexity of an organisation then refers to the multitude and diversity of its branches with regard to hierarchy and functions. On the other hand, viability refers to the fact that organisations and procedures are relatively independent with respect to one another and that they are not a mere representation of the interests of certain groups of people. And finally coherence is an indication of the stability and the organisational and functional unity of the organisation (Huntington, 1968).

Institutionalisation, in its real sense, could mean that the organisation is stable and coherent in its internal structure, rending it capable of developing its functions in response to the changing environmental requirements. Likewise, lack of institutionalisation should refer to the weak institutional powers of the state rendering it incapable of functioning properly with regard to the processes of directing, organising and distributing. It is obvious from the foregoing that the mode of economic organisation and public policies in distributive states will render the state institutionally less capable with regard to directing and organising.

However, despite the fact that the availability of political will, transparency and a well defined legal framework are essential prerequisites for privatization and economic reform, yet these are not sufficient to ensure success unless supported by the enhancement and development of institutional powers to improve economic performance. Thus the institutional capabilities of the state are, to a great extent, a function of structural and organisational stability.

The case of Libya provides a clear example of this relationship. The Basic Peoples' Conferences are designated with the task of defining aims and objectives through the issuing of laws and concerning public policies, whereas the executive and administrative institutions undertake the task of issuing the detailed executive regulations associated with the legislation, besides taking all the necessary measures to enforce the laws and regulations. Consequently, the stability of the structures of institutions is deemed a crucial element of the effectiveness and efficiency of public policies in achieving their goals. Nonetheless, the regular structural changes in Libya since the late 1970s have affect, and still affecting, the performance of public policies in all areas, given the fact that these changes have influenced all governmental levels including the Peoples' Conferences, the Peoples' Councils, the GPC and other peoples' committees in charge of other sectors and particularly the economic sector (Al-Mugairbi, 2003). However, the secretariats that are directly associated with the economic sector have suffered from many decisions concerning mergers, divisions and liquidations. This has made it almost impossible for them to establish reliable and stable policies regarding the economic sector. This has rendered economic policies ineffective and inefficient with respect to their aims.

Furthermore, the numerous cases of division and merger of organisations has resulted in the malfunctioning of the secretariats and other economic organisations, as well as managerial chaos, inefficiency and overlaps in the functions and duties of these organisations. This has also affected the power of the relevant secretariats and the organisations of the private sector to gather basic economic information and data essential for assisting decision-makers in proper planning. The process of controlling and directing the processes of privatization and economic reform necessitate the development of the directive and organisational capabilities of state institutions, as well as the enhancement of other state powers to enable the state to undertake its crucial and important role.

4.12.5 The Role of the State

The attempts of economic reform and privatization in Libya should imply a wider and more profound role of the state. This contrary to the belief that the state should completely pull out of economic activities and give up its obligations with respect to vital services such as education, health and employment. In addition to the above mentioned requirements, the state must be able to monitor, control and organise economic activities as well as develop its institutional capabilities in all areas ensuring a high level of transparency and accountability.

It is clear that the discovery of the oil gave the Libyan state a unique status. However, the previous policies of the state have rendered the private sector incapable of making any significant contributions to the development process in Libya.

The commitment of the state to rehabilitate basic social services, including health, education, the economy, housing, telecommunications, and transport, would necessitate the allocation of oil resources to fulfil this task. In addition, the state has the duty to organise and encourage the processes of economic reform and privatization by diversifying the economic base. These responsibilities should make the role of the state increasingly important and more acceptable to the public.

The initial requirements for the success of privatization should be a package of macro economic policies leading to a free economy and paving the way for the establishment of a foreign exchange market (to help attract the savings of individuals), as well as a clear credit policy, the creation of favourable conditions for competitiveness, and tight controls over monopoly in the presence of clear-cut policies to encourage investment. Introducing reforms to the taxation system would be required, as well adopting the appropriate financial, monetary and trade policies that would assist the private sector and activate its role in cutting public debts. Therefore it is an important prerequisite that privatization should be initiated within a favourable environment, with a definitive simplicity in order to achieve its anticipated objectives and gaining momentum as time goes by.

According to Cook and Kirkpatrick (1995), one of the most important factors in successful privatization processes is the active encouragement and support of the government. Also the private sector needs an integrated policy approach that systematically addresses the range of constraints that can inhibit private enterprise growth in particular country and sector contexts (El-Naggar, 1989).

A report from the IMF notes that when an enterprise is transferred from the public to the private sector, the change "ought to reflect a fundamental change in attitude to the conduct of industrial policy" (Molz, 1990). Therefore, there is no doubt that privatization with adjustment is more effective than privatization without adjustment in all cases where prices and costs distortions are common. Privatization can be useful for a society if the government recognizes that procedures and policies must be taken into account before making a decision to privatize. This is not an easy task due to the potentially negative effects if implemented in the wrong way.

Hence, privatization should be deemed as an economic policy, no different to other economic policies, rather than an objective per se. The success of this policy should be a function of the surrounding environment. It is worth mentioning that the state should play a major role in terms of control and supervision in order to avoid any potential mishaps, malfunctioning and gaps that might disrupt the application of the various economic policies.

4.13 Conclusions

The privatization of SOEs has proven a useful policy tool to increase performance and efficiency at the microeconomic level. It may also attract foreign investment to developing countries. To achieve these goals other policy decisions need to be considered, such as development of regulatory frameworks and institutions that are independent and accountable to create well functioning markets and the choice of a suitable privatization method as well as to protect consumers against abuses of monopoly power, assure investors that they will be fairly treated, and address broader equity concerns.

The previous chapter discussed the specific characteristics of the Libyan economy. This chapter has explored the issue of privatization in Libya, giving specific emphasis to the characteristics of the manufacturing sector. Three important insights can be derived from this analysis. Firstly, the clear domination of the government over most economic activities was due to legislation giving a massive role to the public sector in manufacturing and economic activity. Secondly, actual productive capacity in the majority of public firms has low average compared to productive capacity and targets.

These indicators verify the importance of privatization as a means to solve these problems, as well as to relieve the Libyan state of huge expenditure on unsuccessful schemes. Finally, privatization programme of the government has not yet enjoyed much popular support.

To sum up, policy makers need to understand the complexity of and controversy around privatization if they hope to develop an effective implementation strategy.

Endnotes

[1] General's People Committee, 1999, an overview of the Libyan Economy, annual report.

[2] Economic and Social Survey in Libya 1985-1996.

[3] Most recent data on production capacity is unavialiable.

[4] National Board of Research Study, General Basics of Restructuring the Libyan Economy Structure, 1992.

[5] People's Committee of Industry in Tripoli (Report on Food Industry Sector 1987-1993).

[6] People's Committee of Industry in Tripoli (Report on Food Industry Sector 1987-1993).

[7] For example, Shleifer and Vishny (1993) have argued that corruption slows down growth. In the first cross country empirical analysis of its kind, Mauro (1995) examined the relationship between corruption and growth using internal business data for the period 1980-1983. He found that corruption lowers private investment and hence growth.

[8] MEBO: Management employee buy-out.

[9] In 2005 the report of the International Transparency Organization indicates that Libya is still at the very bottom of the list of the most corrupt countries. Libya came in at number 108 of 158 countries.

CHAPTER FIVE
RESEARCH METHODOLOGY

5.1 Introduction

A better understanding of privatization issues in relation to strategy and the future implications in Libya requires more than one source of data. This is due to the difficulties in obtaining data related to this topic. Accordingly, this study uses a multi-disciplinary research methodology (triangulation) to measure variables and test hypotheses. The combination of more than one research methods can provide significant insights into the subject of privatization, where each method compensates for the weaknesses of the others. This contributes to increasing the validity and reliability of the study. The reasons for using this type of method have been discussed in this chapter (see section 5.3).

The primary research method is the questionnaire survey targeted at three different groups of people: (1) all managers of the LNTC; (2) a sample of workers of the LNTC; and (3) a sample of businessmen from NPFs. The secondary data were gathered from several local and international institutions (for more details, see section 5.9).

This chapter gives a brief introduction to the methodology used in this thesis. It first explains the research strategy and then discusses the quantitative and qualitative methods used, including the distinctions between the two types of method and the importance of linking them in piece of one research. Finally this chapter discusses the research sample and the process of data collection.

5.2 Research Strategy

The choice of the appropriate method is the first problem that faces any researcher. Generally, the process of research can be classified into two categories namely, quantitative and qualitative approaches. Quantitative and qualitative approaches both have their pros and cons. The choice of the appropriate approach is totally dependent on the nature of the research and the information required. The following two sections provide a brief introduction to the concepts of each method.

5.2.1 Quantitative Methods

Quantitative methods such as surveys have the advantages of enabling the researcher to generalize statements concerning the objects of the study through representative surveys and to later validate the results by standard statistical techniques. The conclusions one can draw are generally more reliable because they are based on evidence from relatively large number of respondents who were chosen to represent the population using statistical methods. Surveys also enjoy the advantages of the possibility of repetition. They allow the researcher to repeat the same survey or statistical test on different groups of people. Comparisons between the different groups could than be made to check whether they are similar and therefore support hypotheses, or to explain any differences if the results are different. The major disadvantage of using surveys is that in most cases it is not possible to get detailed answers. For example, if a response is unspecific, it is not normally possible to clarify it with the respondent. Another disadvantage of surveys is the possibility of bias. Bias could result from questionnaire design, leading respondents to answer in a certain way, or from the choice of respondents themselves who could be more likely to respond in a certain way.

5.2.2 Qualitative Methods

Qualitative methods such as case studies and interviews provide more of in-depth insights into the topic, drawing on information provided by fewer informants (Denscombe, 2003). They also help to examine what happens behind the scenes of different institutions, organizations and activities (Yin, 1994). In contrast to quantitative research, qualitative methods use observation, in-depth interviews, questionnaires, documents and texts and the researcher's reactions and impressions to gather data, for example in the use of action research, case study research, ethnography, and grounded theory. Qualitative research is often open-ended and usually does not support any specific hypothesis. Qualitative scientists believe that people's perceptions of the world constitute reality; therefore, since everyone is unique and has unique experiences, it is difficult to aggregate or generalize results. Table 5.1 summarizes the advantages of interviews:

Table 5.1 Advantages of Interviews

➢ **Depth of information**	By producing data which deal with the topic in depth and detail.
➢ **Insights**	The possibility to gain valuable insights based on the depth of the information gathered and the wisdom of key informants.
➢ **Equipment**	Simple equipment and rely on conversation skills which the researchers already have.
➢ **Informants**	The opportunity to expand on ideas, explain views and identify what participants regard as crucial factors.
➢ **Flexibility**	Adjustments to lines of enquiry can be made during the interview itself.
➢ **Validity**	Direct contact at the point of interview means that data can be checked for accuracy and relevance as they are collected.
➢ **High response rate**	Prearranged and scheduled for a convenient time and location.

Source: *Denscombe (2003).*

On the other hand, there are many constraints when employing qualitative research, for example in sampling, methods of collecting data, techniques of analysis, and restrictions of time, money and resources available (Fellows and Liu, 1997). In this light, Saunders et al (2000) highlights the differences between quantitative and qualitative research, as shown in the following table:

Table 5.2 Distinctions between Quantitative and Qualitative Data

Quantitative Data	Qualitative Data
➢ Based on meanings derived from numbers.	• Based on meanings expressed through words.
➢ Collection of data in numerical and standardised form.	• Collection of data in non-standardised form requiring classification into categories.
➢ Analysis conducted through the use of diagrams and statistics.	• Analysis conducted through the use of conceptualisation.

Source: *Saunders et al (2000).*

It may be argued that the most appropriate method to assess managers' and employees' views is the attitude survey. Using an adequate sample permits the researcher to achieve generalizable results that can describe the views and attitudes of managers and employees toward the privatization process[1].

A survey also allows the researcher to study different ideas from different groups (managers and employees) in order to compare the results and identify any similarities or differences.

5.3 Research Method

This study has adopted a triangulation strategy of social phenomena to test hypotheses and measure variables (Frankfort-Nachmias and Nachmias, 1992; and Bryman, 2001). This is considered an ideal approach to address potential problems in constructing validity since multiple sources of evidence provide multiple measures of the same phenomenon (Yin, 1994).

As Bryman (2005) suggested, social scientists are likely to create greater confidence in their findings when they employ more than one method of investigation, and hence more than one type of data. According to Rossman & Wilson (1991) there are three broad reasons as to why quantitative and qualitative data should be linked. These are: (i) to enable confirmation or corroboration of both types via triangulation; (ii) to elaborate or develop analysis, providing richer detail; and (iii) this can help during data collection by supplying background data, gaining otherwise overlooked information, and thus helping avoid bias.

The present research adopted a strategy that achieved these aims within the limited resources available and the time allowed. This strategy was composed of the following:

5.3.1 Interviews for Examination of Policies at the Macro Level

Personal interviews are considered one of the most effective methods of data acquisition. This method involves the collection of facts by direct contact between the researcher and the participants through interviews (Al-Kandari and Abdel-Dayem, 1993). In this study content analysis techniques were applied to analyses the data.

The interviews were semi-structured which means all respondents received exactly the same interview questions. There are three main reasons behind choosing this method: (1) the small number of people targeted for interview; (2) the desire of the researcher to gain full answers from the respondents; and (iii) the nature of the research, in collecting data related to the Libyan strategy for the privatization process.

Given the suitability of these conditions in the current study, in-depth interviews were conducted to gather information and data relevant to the research questions. The target sample for personal interview was as follows:

(i) The Director of the GBO in Libya[2].

(ii) Managers of the main departments of the GBO, namely: (1) Manager of the Ownership Department; (2) Manager of the Studies and Evaluation Department; and (3) Manager of the Companies Department[3].

These interviews were conducted in April 2005. Interview questions were open-ended in order to elicit explanations of privatization strategies in Libya with reference to the policies, procedures and the role of the state in the privatization process. Examination at this macro level allowed the researcher to gain a more global view of the whole privatization scene in Libya. These interviews lasted between one to two hours and were conducted on GBO premises. They were supported by access to documents and records related to the privatization process in Libya. Hence the researcher was then in a position to understand and analyze privatization policies and plans in Libya.

5.3.2 Survey Study at the Micro Level

(i) An attitudinal survey was carried out of all managers and samples of employees of the factories of the LNTC. The aim was to solicit their views on the privatization process, to identify barriers and problems in implementation and to identify options for action. This survey led to a clear statement of major problems hindering the privatization process in Libya in general and for the case study in particular.

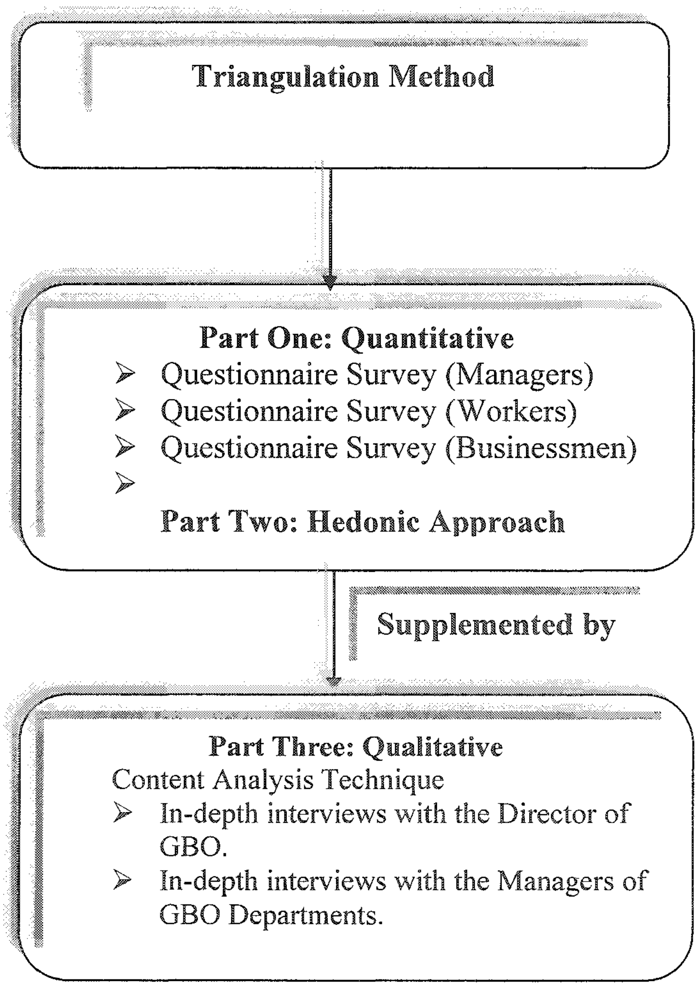
(ii) An attitudinal survey was carried out in a sample of NPFs. The aim was to know their attitudes about and views on the obstacles which have hindered the privatization programme in Libya.

5.3.3 Quantitative Technique

This research employs a series of statistical and econometric techniques in testing the research hypotheses. The primary data are subjected to analysis using basic descriptive statistics, whereas the study further undertakes an econometric analysis using the so-called "hedonic" technique to evaluate the main characteristics of the firms in the market-place. This technique enables the contribution of each determining characteristic responsible for overall performance to be estimated.

Hence, the research presented here can be considered as an exploratory study using descriptive economic analysis, which is not the norm in economic studies of privatization[4].

Figure 5.1 Research Method



5.4 Structure of the Questionnaire

The questionnaire of this study was designed to cover a number of relevant subjects and to discover the attitudes of managers, workers, and businessmen. The preparation and administration conducting of the questionnaire passed through four stages summarized as follows:

1. Exploratory field visits to all the 21 factories, Ministry of Industry and Minerals in Tripoli, and the GBO. These visits gave an opportunity to meet a number of people in these factories in order to become aware of the different activities involved and the difficulties that faced these factories.
2. The questionnaire was designed and improved after a pilot study. This step involved training the participants and ensuring that the questionnaire was well understood by the target group and to consider any comments made given by them.
3. Test-retest reliability of the questionnaire. Five copies of the questionnaire were distributed among the workers in each factory, giving a total of 105 copies, of which 83 copies were completed. However, only seven copies were distributed to managers, all of which were completed. To test the reliability of the answers the questionnaire was distributed to the same respondents for a second time after a period of time exceeding two weeks. After calculating and comparing the correlations between the two scores obtained, no significant discrepancies existed, indicating the reliability of these answers[5]. This field work was conducted between February and April 2005.
4. A high response rate was very important to the success of this study, and therefore the following measures were taken:

(i) A covering letter was attached to each questionnaire indicating the importance of such a study to the development of Libya.

(ii) The covering letter guaranteed the anonymity of all respondent, and their names were not required.

(iii) The final draft of the questionnaire was prepared in English and then translated into Arabic in order to overcome language problems.

Three questionnaires were used: one for managers which contained 46 questions; one for workers contained 11 questions; and the other for businessmen which contained 35 questions[6].

5.5 Questionnaire Design

The Likert scale was used in question design because this is considered as one of the most common techniques to measure intensity of feelings and attitudes about the area in question (Bryman, 2005). Moreover, Likert-scale responses gave respondents a wider choice of responses in answers to the questions (Pallant, 2005).

The format used for indicating level of agreement was a 5 point scale where 5 = Strongly Agree to 1 = Strongly Disagree.

5.6 Sampling

The target population for this study is subdivided into three categories as follows:

1. Managers of the factories of the LNTC. Due to the limited number of the managers, all 21 were selected for involvement in the survey. The researcher also personally interviewed them at the end of the data collection process. The purpose of these informal interviews was to explore in more depth some of the answers and to gain further insight into the attitudes of the respondents.
2. Samples from the workforce of the LNTC: The total workforce numbered 6570 workers distributed among the factories. Given the varying number of workers in each factory, the avoidance of sampling error was accomplished by using a stratified sampling technique. The first step in obtaining a representative sample from the factories was to select the whole workforce in each factory and then to classify them separately, and in order to acquire a level of confidence of 95% a random sample of 5% was chosen from each factory to represent that factory in the sample group, based on the number of workers in each factory. Table 5.3 offers more details about the sample size for each factory:

Table 5.3 The Population of the Study

Serial	Factory Name	Location	Population Size	% of Total in Each Stratum	Sample Size
1	**Tripoli**	Tripoli	350	×5%	18
2	**Attahadi**	Tripoli	270	×5%	14
3	**Abosalem**	Tripoli	350	×5%	18
4	**Al-Hany**	Tripoli	311	×5%	16
5	**Ganzoer**	Tripoli	300	×5%	15
6	**Garahboli**	Tripoli	280	×5%	14
7	**Qasr Ben Ghashir**	Tripoli	302	×5%	15
8	**Alazeeziya**	Tripoli	368	×5%	18
9	**Al-Zahra**	Zawia	319	×5%	16
10	**Al-Agelat**	Zawia	310	×5%	16
11	**Sabrata**	Zawia	340	×5%	17
12	**Kabao**	West Mountain	315	×5%	16
13	**Azzintaan**	West Mountain	265	×5%	13
14	**Gryan**	West Mountain	318	×5%	16
15	**Zliten**	West Mountain	287	×5%	14
16	**Tarhoona**	West Mountain	270	×5%	14
17	**Misratah**	West Mountain	305	×5%	15
18	**Ben-Waled**	West Mountain	280	×5%	14
19	**Mezzda**	West Mountain	365	×5%	13
20	**Sebha**	Sebha	277	×5%	14
21	**Murzuq**	Sebha	388	×5%	19
	Total*		**6570**	×5%	**325**

- Researcher's calculations.

3. Samples from businessmen in Libya: Here a sample of 80 businessmen was selected from the city of Tripoli. These persons had been in charge of small and medium-sized privately owned firms operating in the field of textiles and clothing. They were chosen to explore their views regarding the privatization of the Libyan economy, and also to make a comparison with managers of the LNTC.

The choice of the target sample from the city of Tripoli can be attributed to two main reasons:

1. The city of Tripoli is the capital of the country and holds the higher population compared to other cities.
2. Compared to other cities in Libya, Tripoli incorporates the highest number of stores and factories of individual private cooperatives operating in the field of textiles and clothing. Consequently a number of relevant businessmen work in Tripoli. This made it possible to meet a number of individuals involved in new small and medium-sized enterprises and to ask direct questions about the main problems they perceived that constituted barriers to the success of privatization in Libya.

5.7 The Process of Data Collection

The process of data collection for the present study was based on a survey undertaken in the period from February to April 2005. The main part of the survey involved the questionnaire study. However, due to the distribution of questionnaires to factories all over the country, the process took six weeks: two weeks for distribution and four weeks to receive responses. Table 5.4 indicates the level of responses obtained:

Table 5.4 Response Rate of Questionnaire for Workers

No. of Questionnaires Distributed	Responses	Non-Responses	Response Rate
325	275	50	84%

From table 5.4 it can be concluded that a total of 325 questionnaire copies have been distributed of which 275 have been received, giving a response rate of 84% with the loss of 50 questionnaires which is deemed relatively insignificant.

This is an excellent response rate and exceeds the 25-35% useable response rate suggested by Fellows and Liu (1997) needed to be able to draw conclusions from the results. It is meets Dillman's criterion of an average acceptable response rate for a questionnaire survey of between 50-92% (Saunders et al, 2000).

In addition, for the purpose of exploring the views of a sizeable sample of businessmen in Libya, a special questionnaire was designed covering 15 of the potential barriers to the process of privatization. 80 copies of this questionnaire were distributed. Only 40 responses were considered worthy of analysis. This work was also conducted between February and April 2005.

Table 5.5 Response Rate of Questionnaire for Businessmen

No. of Questionnaires Distributed	Responses	Non-Responses	Response Rate
80	40	40	50%

5.8 Data Treatment and Selection of Statistical Procedures

After the field data were collected, the next step was the analysis of the data. First the data were coded in order to allow them to be processed and analysed statistically. Each variable was given a code number. The choice of statistical tests and analytical methods varied according to the nature of the research questions (Obeidi, 2001).

The most common and straightforward methods used in social sciences research were used where possible. The data was analysed using the SPSS to work out arithmetic means, frequency ratios, percentages and correlations. Besides the latter procedures, a simple hedonic model was utilised to indicate the extent of the competitiveness by an estimation of the variables influencing the profitability.

5.9 Secondary Data

(i) Official publications and government documents, including documentary surveys, government information documents, records, central bank of Libya, reports, published statistics, periodicals, journals, theses and other relevant material.

(ii) Reports by international organizations: World Bank, International Monetary Fund, World Development Organization, United Nation Conference on Trade and Development, Arab Development Organisation, Arab Monetary Fund.

(iii) Other information was collected from different internet sources.

5.10 Conclusions

This chapter has explained the research methods used in the present study. It has explained the importance of using both quantitative and qualitative approaches. In this regard, three essential issues have been discussed.

Firstly, in-depth interviews were conducted with the General Manager of the GBO and managers of its main departments. In addition, informal interviews were conducted with managers of the LNTC.

Secondly, the questionnaire survey was conducted with all managers and a sample of workers of the LNTC and finally, the research sample and the process of data collection have been discussed.

Endnotes

[1] On this issue, see Awamleh (2002), for filed survey of the attitudes of public officials in a sample of 24 public enterprises in Jordan. Also, see Al-Sarhan & Presley (2001), for an attitudinal survey amongst senior businessmen and government employees to privatization.

[2] The General Board of Ownership, Transfer of Public Companies and Economical Units (GBO) was established by resolution 198 of the General People's Committee in year 2000. It reports to the General People's Committee and is delegated to execute the programme for the ownership of transferring public company and economical units to the private sector.

[3] For more details about the questions of the interviews see a copy in the appendix 4.

[4] According to Philips and Pugh (2000) there are three basic types of research which are: (1) exploratory research; (2) testing out research; and (3) problem solving research.

[5] On the issue of test-retest reliability, see for example Pallant (2005).

[6] Copies of the questionnaires are in appendices 1, 2 and 3.

CHAPTER SIX
DATA ANALYSIS AND DISCUSSION

6.1 Introduction

The management and staff of public sector institutions normally oppose privatization programmes. Initially managers fear that they might lose their top jobs as a result of privatization, given the fact that they are under qualified and therefore lack the proper knowledge about the nature of privatization (Hawadana, 2003). Consequently winning the trust of the management and staff of the targeted public institutions is deemed to be a prerequisite for the success of the privatization process (Hawadana, 2003; and Hall et al, 2005).

Therefore, it is important for decision makers to conduct initial field surveys within the target institutions to discover the opinions of managers and the workforce and to find out whether they agree with or object to privatization. However, in the case of opposition decision makers can approach managers and staff in a number of ways in order to convince them about the benefits of the privatization programme. The most methods are the following:

- Engagement in dialogue with employees at an early stage explaining the concept of privatization, its objectives and significance, highlighting the benefits and the privileges that the workforce might gain as a result of the state giving up its control over these institutions, whether partially or totally (Awamleh, 2002).
- Staging media campaigns featuring information about the real financial status of the target companies.

- Proposing mechanisms that would secure the rights of staff to retain their jobs following privatization, such as paying compensations, free or low-priced shares in the privatized firms, and early retirement and severance benefits to encourage voluntary departures in place of layoffs to those affected by privatization (Kikeri and Nellis, 2004).

It is worth considering that countries such as New Zealand have used the above approach prior to starting privatization programmes. The government of New Zealand published information involving the damage caused by the underperformance of some public sector organisations, rendering privatization acceptable and a matter of urgency to the public (Shirley and Nellis, 1991). Another example is that SOE employees in Ghana who were declared redundant could be entitled to 10 years salary (Clifford, 1993).

This chapter is divided into four parts. Part 1 reviews and analyses the data obtained from the field study in relation to LNTC. The purpose of this part is to derived information concerning the extent to which the attitudes of the managers and the workers of privatized factories were a barrier to the smooth implementation of privatization, and whether the privatization programme was considered a success or a failure and in the case of failure, what the main underlying reasons for this were thought to be. The second part of this chapter analyses the data obtained from the field study of NPFs, allowing a comparison to be made between the LNTC and the NPFs in relation to the constraints on the privatization process in Libya and the performance of newly privatized firms. Part three related to the hedonic technique model which was applied in order to identify the most important variables affecting the profitability of firms. The forth part reviews and analyses the data obtained from the personal interviews which have been conducted with the Director of the GBO and the managers of its main departments.

6.2 Data Analysis of the factories of the LNTC

6.2.1 Managers' Attitudes

The support and cooperation of the managements of the target organisations are now generally recognised as important factors in the success of privatization (Hawadana, 2003; Hall et al, 2005). This is so simply because the managements in major organisations will be in charge of all privatization procedures and it is possible that some of them might continue in their jobs after privatization. In some countries, managers and workers have political power and can control the privatization process, or at most block it (Berg, A. and Berg, E. 1997).

For example, in Turkey the government made redundant the boards of directors and all the top managements of public sector organisations as an initial step in the privatization process. Whereas in Britain in most cases the government replaced the old management by others known to be loyal to the privatization process (Pickering, 1984 was quoted in Hawadana, 2003). In Japan, the old top management of the railway corporation were accused of being disloyal to the privatization process, and were replaced by new management chaired by one of the most reputable managers of the private sector. In the case of Libya, in most of the privatised factories surveyed, 16 out of 21 existing managers kept their jobs[1].

To investigate the attitudes of managers prior to privatization, a relevant question was asked, with the following results being obtained:

Table 6.1 Managers' Attitudes toward Privatization

Item	Frequency	Percent
Yes	5	23.8
No	16	76.2
Total	21	100

Source: *Survey Data.*

From the results in Table 6.1, the majority (76.2%) of respondents indicated that they were anti-privatization, whereas only (23.8 %) were pro-privatization. This is not surprising as managers of SOEs usually prefer to work in public enterprises. Further questions asked to find out the most important reasons behind the opposition of management to the privatization programme. The three main answers are shown in the following tables:

Table 6.2 Main Factors behind Mangers not Favouring Privatization

Serial	Item	Mean	Mode
1	Fear of Inadequate Capital	4.6	5
2	Fear of Losing their Jobs	3.9	4
3	Fear that Production would not Continue	3.4	2

Source: *Survey Data.*

Table 6.3 Managers' Responses for each Factor as a Percentage

Code	Item	Fear that Production would not Continue		Fear of Inadequate Capital		Fear of Losing their Jobs	
	Responses	Frequency	%	Frequency	%	Frequency	%
5	Strongly Agree	4	19	10	47.6	4	19
4	Agree	4	19	6	28.6	7	33.3
3	Neutral	3	14.3	-	-	4	19
2	Disagree	5	23.8	-	-	1	4.8
1	Strongly Disagree	-	-	-	-	-	-

Source: *Survey Data.*

From the managers' pint of view, inadequate capital represents the most important barrier to the privatization of their factories, with a mean response of 4.6 and a mode of 5. The fear of losing jobs after privatization was the second most important factor with a mean response of 3.9 for the answers and a mode of 4, whereas the fear that privatization may cause production not to continue gains a mean response of 3.4 and a mode of 2.

From the foregoing it can be concluded that, despite variations in mean responses, there was a consensus among managers that all of the above mentioned factors are important representing major reasons leading them to opposing privatization programme.

6.2.2 Workforce Attitudes

The fears of the workers regarding privatization stem from the belief that privatization might cost them their jobs. Privatization in some cases does indeed lead to redundancies, as has been the case in many countries such as the UK and Thailand (Van de Walle, 1994). Nonetheless, it is not necessarily true that privatization programmes are associated with redundancies, and it is more likely that the new owners might keep most of the workforce, or even increase the workforce as the result of successful management (Van de Walle, 1994).

In Bangladesh, for instance, the contracts of sale of companies included a commitment by the new owners not to make any compulsory redundancies, given the fact that many options were available for the government. These options include striking deals with other private sector companies to take part of the workforce made redundant by the privatization programme (Vuylsteke, 1998).

Given the importance of this factor the same question was asked to discover the expectations of the workforce prior to the implementation of the privatization programme. The results are shown in the following table:

Table 6.4 Workforce Attitudes toward Privatization

Item	Frequency	Percent
Yes	191	69.5
No	84	30.5
Total	275	100

Source: *Survey Data.*

It can be seen from the results in Table 6.4 that the majority (69.5 %) of respondents indicated that they were in favour of privatization, whereas only (30.5 %) had opposed to it[2]. In order to interpret these results the participants were asked further questions regarding their support for the privatization programme, and the results are shown in the following tables:

Table 6.5 Causes of the Workforce being in Favour of Privatization

Serial	Item	Mean	Mode
1	Workforce would have better Working Conditions	4.5	5
2	Workforce would get increases in Salaries	4.3	5
3	Workforce would have opportunities for promotion	2.9	4

Source: *Survey Data.*

Table 6.6 Workforce Responses for each Factor as a Percentage

Code	Item	Workforce would have better Working Conditions		Workforce would get an increase in their Salaries		Workforce would have opportunities for promotion	
	Responses	Frequency	%	Frequency	%	Frequency	%
5	Strongly Agree	2	0.7	103	37.5	7	2.5
4	Agree	2	0.7	61	22.2	79	28.7
3	Neutral	3	1.1	12	4.4	19	6.9
2	Disagree	75	27.3	15	5.5	57	20.7
1	Strongly Disagree	109	39.6	-	-	29	10.5

Source: *Survey Data.*

From the survey it can be concluded that the highest mean response was 4.5 with a mode of 5, indicating that most of the workforce anticipated better working conditions as a result of privatization, whereas increase in wages gave a mean response of 4.3 and a mode of 5. The anticipation of promotion as a result of outstanding performance and high skills gave a mean response of 2.9 and a mode of 4, which is weaker compared to the other expectations.

6.2.3 The Performance of the Factories of LNTC after Privatization

The major impetus for privatization of SOEs derives from the need to improve the performance of enterprises. However, in an economic environment in which other economic policy reforms implemented simultaneously and in sequence, it becomes difficult to isolate the effects of privatization alone on economic performance. However, as a developing country starting its privatization programme at the end of the 1980s, Libya mainly aimed at increasing the productivity of its workforce through partnership in the production process (the famous slogan of partners, not wage earners), improving workers' incomes and relieving the burden on the state coffers of subsidies to public sector corporations[3]. To investigate whether or not these aims have been fulfilled, a number of questions were designed in relation to the performance of these factories after the privatization process. To measure the performance of the factories under study the questions included several factors considered as indicators of performance in the period after the privatization process. Theses factors are; productivity, production quantity, reduction in unit costs, labour productivity, method of production, profitability, sales and capital following privatization[4]. The following analysis considers each of these factors separately.

- **Productivity**

Productivity is a concept involving the relationship between the input resources used and the output of production of a certain item. In other words productivity can be defined as the efficient use of resources, including labour, capital, land, equipment, power, and information in the production of commodities or in providing services (productive efficiency) (Al-Salmi, 1991; and Lopez-Calva, 1998). Hence, productivity can be expressed in terms of the relationship between production output and input resources, and therefore the higher this ratio the higher the productivity and visa versa. Consequently, an improvement in productivity implies the maximum possible use of input resources that can be achieved through one of the following means:

(i) Increasing production without increasing input resources.

(ii) Increasing production with slight increases in input resources.

(iii) Keeping the same levels of production with a decrease in input resources.

(iv) Decreasing levels of production with higher reductions in the level of the input resources.

In this regard, it is argued that, following privatization, firms should increase their output because of competitive pressure and better incentives (Megginson et al, 1994). According to Kikeri et all (1994), privatization fosters efficiency and increases investment; and thus output is expected to grow. A number of questions were designed for managers related to production factors following the privatization process, including increases in production, increases in labour productivity, decreases in input costs (raw materials), and improvements in production methods[5]. The responses to these questions are shown in the following tables:

Table 6.7 Increase in Production Quantity, Reduction in Unit Costs of Production and Improvement in Labour Productivity

Serial	Item	Mean	Mode
1	Increase in Production Quantity	3.4	4
2	Reduction in Unit Costs of Production	2.0	2
3	Increase in Labour Productivity	2.6	4
4	Improvement in Methods of Production	2.0	1

Source: *Survey Data.*

Table 6.8 Percentage Increase in Production Quantity, Reduction in Unit Costs of Production, and Improvement in Labour Productivity

Code	Item	Increase in Production Quantity		Reduction in Unit Costs of Production		Increase in Labour Productivity		Improvement in Methods of Production	
	Responses	Freque	%	Freque	%	Freque	%	Freque	%
5	Strongly Agree	-	-	-	-	-	-	-	-
4	Agree	11	52.4	-	-	9	42.9	3	14.3
3	Neutral	7	33.3	6	28.6	-	-	3	14.3
2	Disagree	3	14.3	9	42.9	6	28.6	7	33.3
1	Strongly Disagree	-	-	6	28.6	6	28.6	8	38.1

Source: *Survey Data.*

From the field survey it is apparent that a slight average increase in output was reported following privatization, with a mean response of 3.4[6]. Also there was a slight decrease in labour productivity with mean response of 2.6 for the answers suggests. Meanwhile neither improvements in production methods nor decreases in production input costs have taken place, as suggested by the mean responses of 2.0 for the respective questions.

From the above results the following conclusions can be drawn:

1. All managers have confirmed that significant increases in production quantity have been achieved following the privatization process due to a number of reasons. Most importantly, although they have been privatised, the factories have remained under government influence for almost 5 years by receiving subsidies at the official exchange rate [7]. Moreover, neither local nor foreign competitiveness existed prior to 1994 since no cooperatives nor other factories produced the same products with the exception of two companies in Benghazi and another in Misratah.

   However, following law no (9) of 1992 in relation to the engagement in economic activities, most factories faced difficulties in marketing leading to the accumulation of unsold products[8]. The following table shows the extent of competition among factories in the managers' opinions:

Table 6.9 Competition Levels among the Factories

Serial	Item	Mean	Mode
1	Foreign Competition	3.4	2
2	Domestic Competition	3.4	2

Source: *Survey Data.*

It is clear from Table 6.9 that the LNTC factories face strong foreign and domestic competition in selling their products.

Table 6.10 Foreign and Domestic Competition as a Percentage

Code	Item	Foreign Competition		Domestic Competition	
	Responses	Frequency	%	Frequency	%
5	Strongly Agree	4	19	5	23.8
4	Agree	8	38.1	7	33.3
3	Neutral	1	4.8	1	4.8
2	Disagree	8	38.1	8	38.1
1	Strongly Disagree	-	-	-	-

Source: *Survey Data.*

It can be noted from the results that the mean values for local or foreign competitiveness were both 3.4 suggesting that the factories suffered from both local and foreign competition.

2. The fact that privatization neither reduced input costs (raw materials) nor it improved methods of production is due to two main reasons. On the one hand, the lack of competition within the first five years has resulted in the managers of privatised factories playing down the role of updating machinery and equipments. On the other hand, these privatised factories have remained under the care of the state in receiving subsidies, which has made them state-dependent and operating in the same manner as public sector institutions.

- **Profitability and Sales**

In the developing countries most studies assessing performance before and after privatization conclude that privatization improves enterprise performance (Kikeri and Nellis, 2004). It is well-documented both theoretically and empirically that the transfer of ownership from the public to the private sector should lead to an increase in profitability and efficiency in firms, since public enterprises mostly address the objectives of politicians which are less likely to include profit maximization (Megginson et al, 1994; Megginson, 2001; and Omran, 2004).

Moreover, politicians frequently support SOEs with subsidies for the sake of political objectives (Shapiro and Willing, 1990; Boycko et al, 1996). This political interference can distort the objectives and constraints faced by managers (Shleifer and Vishny, 1994). On the other hand, the lack of incentives for good performance and profitability, and a lack of open market competition have led to SOEs suffering in a number of developing countries sustaining heavy losses. For instance, more than 350 public companies in Tanzania suffered huge losses in the 1980s. Similarly companies in Argentina registered losses between 1989 and 1991 amounting to the equivalent of 9% of GNP, i.e. approximately US$ 8.4 billion in 1990 (Hawadana, 2003).

However, the fact that the private sector is operating under certain economic standards makes profits and the increase of revenue from investment its main target. In this survey questions were designed pertaining to issues of profitability and sales following the privatization process. The results are shown in the following two tables:

Table 6.11 Increases in Profitability and Sales

Serial	Item	Mean	Mode
1	**Increase in Profitability**	1.5	1
2	**Increase in Sales**	1.3	1

Source: *Survey Data.*

Table 6.12 Increases in Profitability and Sales as a Percentage

Code	Item	Increase in Profitability		Increase in Sales	
	Responses	**Frequency**	**%**	**Frequency**	**%**
5	Strongly Agree	-	-	-	-
4	Agree	-	-	-	-
3	Neutral	-	-	-	-
2	Disagree	10	47.6	6	28.6
1	Strongly Disagree	11	52.4	15	71.4

Source: *Survey Data.*

The mean responses of 1.3 and 1.5 indicate very low values for both profitability and sales respectively in the privatised factories[9]. These results might be due to the following:

i. Accumulated Debts

Delays in the payment of taxes, profit transfers, and debt service to the government by public enterprises have occurred in a number of Arabic countries (Heller and Schiller, 1989). In Libya factories transferred to the ownership of the workforce with their financial commitments prior to privatization added to the selling price[10].

This resulted in income from sales being used to cover these financial commitments[11]. For example, at the end of 1994 the rate of coverage was estimated at around 44% of the total capital of the privatised factories, apart from buildings, machinery and equipment (Mirza, 1998). Most of these factories are still suffering from heavy debts yet to be paid[12]. The following table shows unpaid debts for some of the factories:

Table 6.13 Purchase Prices, Debt Repayment and Corresponding Debt of the Factories

Factory Name	Purchase Prices LD	Debt Repayment LD	Corresponding Debt LD	Year
Al-Agelat	371633.66	279640.76	91992.9	1998
Al-Hany	411387.82	341666.92	69720.91	1998
Al-Zahra	415339.00	352452.61	62886.38	1998
Alazeeziya	1123879.00	1047045.14	76833.86	1998
Tarhoona	686151.43	575999	110152.4	1998
Zliten	294299.34	270232.14	24067.2	1998
Garahboli	517810.87	498138.13	19672.75	1998
Misurata	272299.65	269319.96	2979.68	1996
Ben-Waled	293536.41	279640.76	13895.65	1998
Murzuq	266285.05	265881.07	403.97	1996
Sum	4.652622.23	4.180016.49	472.605.7	
Average*	465262.223	418001.649	47260.57	
St.D*	265630.2946	245532.2141	39648.66849	

Source: *Ministry of Industry in Tripoli, annual report, 2001.*

* Researcher's calculations.

ii. The Entry by New Producers to the Market

As mentioned earlier, local and foreign competition after 1994 made marketing difficult for the factories. That time was characterised by the existence of a number of cooperatives selling at lower prices and better quality compared to the factories. This negatively affected sales for the latter, forcing them to opt for the method of production on demand[13].

iii. Inadequate Capital

The failure of the new owners to provide sufficient capital constituted a main setback for the privatization process. In this regard, Clifford (1993) argued that the decision to privatize in the seemingly easiest and fastest way namely to return companies to their former private owners without assessing their financial strength or managerial capabilities has impaired efficiency gains in the textile industry. In other words the capital provided by the workforce was inadequate to pay for the proposed expansion and upgrading of the production processes. The field survey confirms that there has been no major increase in capital following the privatization process, as the following two tables suggest:

Table 6.14 Increase in Capital after Privatization

Serial	Item	Mean	Mode
1	Capital	2.2	2

Source: *Survey Data.*

Table 6.15 Increase in Capital as a Percentage

Item	Frequency	Percent
Strongly Disagree	1	4.8
Disagree	17	81
Agree	3	14.3
Total	21	100

Source: *Survey Data.*

From table 6.14 the low mean value of 2.2 for the answers confirms the fact that no increase in capital has taken place following privatization. However, the availability of capital for private investment is known to be a prerequisite for privatization in any country.

6.2.4 Information, Decision-Making, Control and Supervision

Lack of accurate information, both internally (among the management and the workforce) and externally (in the market) represents one of the most acute problems facing public institutions [14]. By contrast the private sector has access to all information due to the accuracy and transparency. On the other hand, the daily supervision by managers of their staff and by owners of their managers result in direct relationships between all parties involved, highlighting the significance of private ownership (Gupta, 2005).

Moreover, changes introduced by the private sector tend to relieve the company of restrictions and regulations that hinder processes of decision-making. For example, decentralized systems tend to render managers more effective, as they can theoretically concentrate on the immediate business objectives of the organisation rather than on national objectives having to do with social welfare.

In the survey, questions were designed to help regarding the above mentioned factors, and the results are shown in the following tables:

Table 6.16 Information, Decision-Making, Control and Supervision

Serial	Item	Mean	Mode
1	Getting Information	3	2
2	Decision Making	3.3	4
3	Observation and Supervision	3.8	4

Source: *Survey Data.*

Table 6.17 Information, Decision-Making, Control and Supervision

Code	Item	Getting Information		Decision Making		Observation and Supervision	
	Responses	Frequency	%	Frequency	%	Frequency	%
5	Strongly Agree	-	-	-	-	4	19
4	Agree	10	47.6	13	33.3	13	62
3	Neutral	1	4.8	1	4.8		
2	Disagree	10	47.6	7	33.3	4	19
1	Strongly Disagree	-	-	-	-	-	-

Source: *Survey Data.*

With regard to the accuracy of information following privatization, Table 6.16 shows a mean response of 3.0, indicating a neutral opinion. For decision-making the mean response of 3.3 indicates some improvement for supervision and control following the privatization process, the mean response of 3.8 again indicates some improvements in these processes.

6.2.5 Constraints and Obstacles to Privatization Programme in Libya

As explained in chapter 3, the Libyan economy saw huge state intervention in the mid 1980s in the areas of production and investment, this including the issuing and enforcement of a wide range of laws, regulations and restrictions involving price controls and protection and other policies generally related to financial, commercial and monetary matters. As a result of this, the role of the private sector shrank to minimal levels in all economic activities. However, from the 1980s onwards the production units of the public sector, particularly in the manufacturing sector, remained incapable of generating the necessary surplus to compensate for capital costs (Hawadana, 2003).

Not only was profitability low in these units, but many suffered sustained losses. The most important reasons for this situation include the following:

1. Problems pertaining to shortages in foreign currency and inadequate bank credit or delays in providing these credits, which contributed to a decline in production inputs, especially of spare parts.
2. Organisational, administrative and functional problems both within and outside the units.
3. State policies which discouraged the private sector[15].

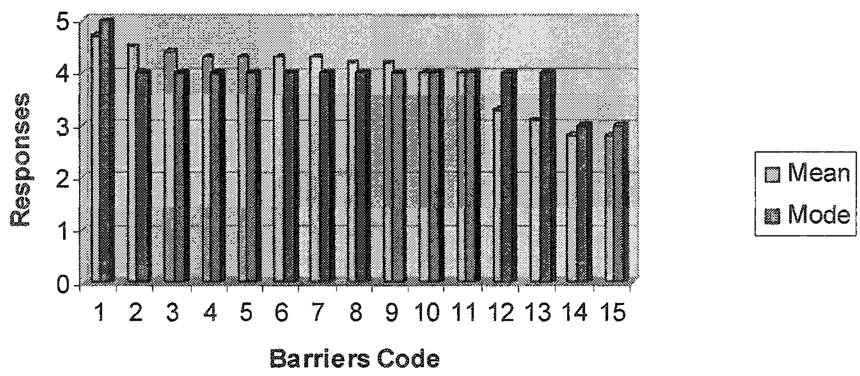
The survey included questions concerned the main obstacles that the managers thought hampered the success of the privatization programme in Libya. The following table shows the results arranged according to priority and importance:

Table 6.18 Manager's Attitudes towards Obstacles to Privatization in Libya

Code	Barriers	Mean	Mode
1	Lack of Loans and Credit Facilities.	4.7	5
2	Strong Foreign Competition.	4.5	4
3	Lack of Clear Monetary Policy.	4.4	4
4	Poor Infrastructure.	4.3	4
5	The Absence of Stock Exchange.	4.3	4
6	High Rates of Taxes and Tariffs.	4.3	4
7	Regulation and Bureaucracy.	4.3	4
8	Legal Transparency.	4.2	4
9	Governmental Subsidies.	4.2	4
10	Shortage of Data and Information.	4.0	4
11	Disorganization and Corruption.	4.0	4
12	Shortage in Skills within the Workforce.	3.3	4
13	Strong Domestic Competition.	3.1	4
14	Political and Economic Risks.	2.8	3
15	Lack of Discussion on the Subject of Privatization.	2.8	3

Source: *Survey Data.*

Figure 6.1 Managers Attitudes Towards Obstacles to Privatization in Libya



From Table 6.18 it can be concluded that privatization in Libya has faced numerous difficulties that need to be sorted out in order to make the experiment a success, according to the views of the factory managers[16].

However, the field survey points to a consensus among managers regarding the existence of most of these barriers, with only 2 of the 13 obstacles mentioned having mean responses of less than 3.0. The following analysis considers the results concerning each obstacle.

- **Inadequacy of Loan and Credit Facilities**

Banks play a major role in determining the extent of successful privatization programmes. Regardless of where they are located, how they are organized, or the structure of ownership, banks tend to perform a number of important functions in any economic system. For instance, they play a central role in a country's payment system, serve as a clearinghouse for payments, mobilization of saving, playing intermediary roles, facilitate the flow of payments, creditors, or owner willing to hold, and provide a mechanism for evaluating, pricing, safety, effectiveness and transparency of these function in an economy (Megginson, 2005). Therefore, weaknesses in the banking system could adversely affect the working of markets or delay the purpose of all economic policies. The state ownership of banks is still pervasive, particularly in developing countries (La Porta et al, 2002; Megginson, 2005). For example, all banks in Libya remain under government control through the CBL[17]. Consequently the monetary policies of these banks are confined to specific measures with regard to providing individuals and organisations with loans and credit facilities.

In this context the survey included a question in relation to the possibility of commercial banks providing loan and credit facilities to factories. As shown in table 6.18 the mean response of 4.7 confirmed the fact that managers of the factories found it difficult to obtain loans and credit facilities from banks[18]. One possible explanation is the absence of private banks which may help to provide such services to private firms.

- **Exchange Rate Policy**

Libya currently experiences several exchange rates. The exchange rate for the dollar is, for example, about 450 Derham for some transactions, whereas in other transactions the exchange rate may be around 2.25 Dinars. Law no (21) of 1994 in relation to engagement in economic activities was amended by law no (1) of 2004 which decreed the principle of fixed exchange rates and phased out the system of budgets and allocations of foreign currencies.

These policies were intended to encourage investment and savings, so that individuals could contribute towards the establishment of private economic projects, the foundation of stock companies and cooperatives, as well as to attract foreign investment in the ownership of companies and economic units in the public sector. These policies were part and parcel of the requirements of the economic reform programme in general and the privatization programme in particular, during which the government of Libya intends to sell 360 economic units in areas such as manufacturing, agriculture, animal resources and marine resources (more detail about privatization stages in Libya is given in section 5.5.4 in this chapter). In this regard, the questionnaire responses shown in Table 6.18 gave a high mean value of 4.4 in emphasising the importance of this factor for developing private sector activity.

➢ **The Importance of the Stock Exchange**

Stock exchange plays a pivotal role in providing the necessary financial resources for the funding of projects through reinvestment savings for the sake of development[19]. However, in establishing stock market a number of conditions should be satisfied: (1) the existence of financial organisations specialised in the demand for and supply of money[20]; (2) the existence of sufficient users of the money market as well as customers of the financial institutions in activating the processes of the buying and selling of assets; (3) the existence of a banking system capable of adaptation in response to local and international changes; (4) a reliable telecommunications network to facilitate the process of information exchange; and (5) competitiveness as well investment should be encouraged through incentives and exemptions.

All the above mentioned requirements should assist in the development of a reliable foreign exchange market, and yet in some developing countries, and particularly in Libya, further requirements exist. These include upgrading the financial institutions, sorting out problems associated with commercial banks, encouraging the establishment of offices specialised in financial and economic analysis, and finally improving peoples' knowledge about investment. However, the field survey revealed that the lack of a local foreign exchange market is considered a major setback for the privatization programme in Libya, as indicated by the very high mean response of 4.3 to a question concerning the absence of such markets in Libya.

- **The Importance of Reviewing Legislation**

The existence of intricate legislation is a disadvantage and tends to hamper local and foreign investment. Hence the main role of the state in regard to privatization should involve an overall review of legislation and introducing changes so that the legislative framework can cope with the new situation featuring the private sector. In this respect however, Guislain (1997) referred to the importance of simplifying court procedures through a fast track system under an independent legal system and the rule of law. Moreover, the privatization programme should develop new options for setting disputes between organisations and clients such as banks, importers, agents and staff. Guislain referred to the fact that the privatization experiment should make the state more concerned about tax legislation and especially exchange rates in the case of foreign investment between the local branches of organisations and their headquarters abroad. Moreover, rules might be needed that permit the transfer of losses to subsequent years.

In order to gather opinions relevant to the above issues, one question in the survey concerned the updating of legislation. The results are shown in Table 6.18, and the results obtained indicate that no review of legislation was thought to have taken place following privatization, as indicated by a mean response of 4.2.

➢ Government Subsidies Before and After Privatization

SOEs used to operate in an environment of monopoly, rendering them less keen to improve performance. However, the fact that the social objectives came at the top of the list of priorities for these organisation made it less likely that the government would declare an organisation bankrupt. In such circumstances the creation of a competitive environment is necessary for improving performance. This can be done by the removal of existing price controls, and barriers to international trade as well as restructuring the local market and removing discriminatory tax rates (Clifford, 1993).

These measures should boost competition in the local markets through incoming imported goods as well as in foreign markets through the bids of organisations to market their products abroad, which would constitute a great incentive for improvements in performance.

On the other hand, the restructuring of local markets as a method for boosting competition can be achieved in many ways. Most important would be the reviewing of legislation that favours some public sector organisations by giving them monopoly status. These organisations should be treated on an equal footing with private sector organisations. This would require the withdrawal of government subsidies to public sector organisations, and the provision of facilities equally to all organisations whether public or private. These facilities should include bank credit and foreign currency and removing all preferential tax treatment and other obstacles to new companies entering the market.

Privatization implies that state intervention should be lower than before, and the direct role of the state would be limited to planning general policies intend to activate the private sector rather than providing subsidies and financial support to privatised institutions, although in some cases the state may need to do that. For example, in Libya the textile industry has been partially privatised, and some public units are sponsored by the state and thus sell at relatively low prices. Eventually such a situation will not be fair as it will tend to limit the chances of success for private organisations needing to generate profits as well as covering production costs.

However, when managers were asked whether or not their factories were sponsored by the government, the mean response of 4.2, as shown in Table 6.18, is a clear indication of the lack of government financial subsidies to the factories.

➢ Bureaucracy, Bribery and Administrative Corruption

In the words of Joseph Stiglitz (2002): “perhaps the most serious concern with privatization, as it has so often been practiced, is corruption”. On this issue, a number of reports published by the General People’s Committee for Follow up in Libya refer to phenomena associated with malpractices such as bribery, nepotism and administrative corruption. The most important reports were those published in 1989 and 2003, and two key conclusions were that phenomena such as fraud, cronyism and nepotism, bribery and abuse of power for personal gain are rampant in the country; and that phenomena such as indifference and negligence of duty constitute common practices in the civil service in the country.

In order to acquire information related to the above matters a relevant survey question was asked of factory managers regarding the above phenomena. The mean response of 4.0 indicates that these phenomena are deeply rooted in Libyan society.

- **The Surplus Workforce**

The huge surplus in the workforces of public enterprises constitutes a main problem facing decision makers, especially since many staff are appointed according to malpractices such as nepotism and cronyism immaterial of the real needs of these institutions[21]. This might be attributed to a number of reasons, the most important of which are past state policies to combat unemployment by any means, including disguised employment. Cutting unemployment through improving job opportunities for the majority of the people constituted the main feature of government policies during the 1970s until the end of the 1990s.

Consequently a huge number of people were employed by the public sector irrespective of basic requirements for the job and particularly the relevant qualifications of candidates. As a result, most public sector institutions were teeming with incompetent staff. However, the field survey has reveals that the workforce lacks skills, as indicated by a mean response of 3.3 to the relevant question. On the other hand, the field survey shows that most of the workforce, including managers, enjoyed intermediate levels of education at best, as shown in the table 6.19:

Table 6.19 Education Level of Managers and Employees

Item	Managers		Employees	
	Frequency	Percent	Frequency	Percent
Elementary	-	-	8	2.9
Basic education	4	19	21	7.6
Secondary education	8	38.1	113	41.1
Intermediate	6	28.6	87	31.6
Diploma	-	-	37	13.5
University Degree	3	14.3	9	3.3
Total	21	100	275	100

Source: *Survey Data.*

It can be concluded from the field survey that most managers had enjoyed moderate qualifications, though none were PhD or MSc holders and only three had university degrees. The majority of the workforce held intermediate qualifications at best, highlighting the fact that most of both managers and workforces were academically under qualified.

6.2.6 Impact of Privatization on Employment

The other main objective of privatization is to improve conditions for the workforce both financially and environmentally. Financially this can be achieved through providing incentives and bonuses or any other means that encourage workers in increasing productivity. On the other hand by improving the working conditions for the workforce management can also achieve better performance. In order to discover the impact of privatization on the performance of the workforces of the factories under study, four questions were designed involving four factors for evaluating the nature of these effects as shown in the Table 6.20:

Table 6.20 Financial and Environmental Factors after Privatization Process

Serial	Item	Mean	Mode
1	Working Conditions after Privatization	1.7	1
2	Increase in Salaries after Privatization	1.6	1
3	Incentives after Privatization	2.7	2
4	Health and Safety at Work after Privatization	1.9	2
5	Workforce Motivation after Privatization	2.2	1

Source: *Survey Data.*

From the field survey it can be concluded that no significant improvement has taken place in all measures following privatization, as suggested by mean responses of less than 3.0 to all of the questions.

6.2.7 Employment Change

It is mostly believed that SOEs tend to be overstaffed for political and social reasons, such as wealth distribution (Omran, 2004). In this regard, Shleifer and Vsihny (1994) asserted that politicians do not hesitate to use public enterprises to garner political support. Accordingly, in some circumstances, public enterprises might function to fulfil certain distributional objectives. Hence, SOEs may tend to maintain excess levels of employment in exchange for political support from workers. Krueger (1993) and Boycko et al (1996) argue that politicians cause SOEs to be overstaffed. On the other hand, privatization might lead to an increase in the level of employment, since privatized firms may target growth and expanding their investment spending; in turn they will be able to produce more job vacancies.

For instance, Gylfason claimed that privatization may stimulate economic growth, which in turn would create more new jobs (Gylfason, 1998 was quoted in Megginson, 1994). Consequently, employment is a critical issue in privatization because of the possibility that such programmes would lead to cuts in the current levels of employment for examples, BT, British Gas (Megginson, 1994). This variable was tested in the sampled factories by comparing their employment levels for periods of three years pre and post privatization process. The results are shown in Table 6.21:

Table 6.21 Employment Change

Factory Name	Average Pre-Privatization (1984 - 1986)	Average Event Year (1987 & 1988)	Average Post-Privatization (1989 - 1991)
Tripoli	408	392	407
Attahadi	307	307	327
Abosalem	359	350	372
Al-Hany	393	384	383
Ganzoer	407	415	427
Garahboli	387	378	394
Qasr Ben Ghashir	383	388	396
Alazeeziya	391	389	397
Al-Zahra	375	370	375
Al-Agelat	302	305	346
Sabrata	375	374	384
Kabao	372	371	380
Azzintaan	300	308	316
Gryan	375	363	376
Zliten	310	301	312
Tarhoona	309	309	310
Misratah	305	305	340
Ben-Waled	320	301	318
Mezzda	302	306	358
Sabha	301	301	319
Murzuq	407	400	416
Average*	351.80	348.42	364.42
St.D*	42.29	40.87	36.91

Source: *Survey Data.* * Researcher's calculations.

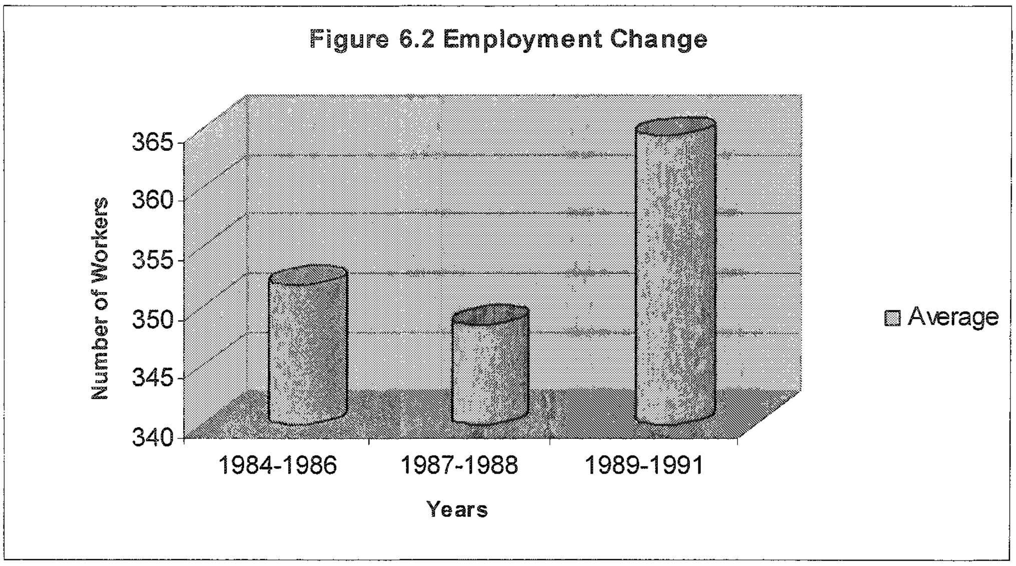


Figure 6.2 Average number of workers for the eight-year period beginning three years before the year of privatization and ending four years after. This figure presents the 21 factories.

Contrary to most recent research in this area, the results of this study surprisingly indicated that employment increased on average from 351 to 364 employees after privatization. The findings of this study are consistent with those of Megginson et al (1994); Boubakri and Cosset (1998); but contradict those of Ramamurti (1997); and La Porta and Silanes (1999).

6.3 Data Analysis of NPFs

6.3.1 Businessmen's Attitudes towards Obstacles to Privatization

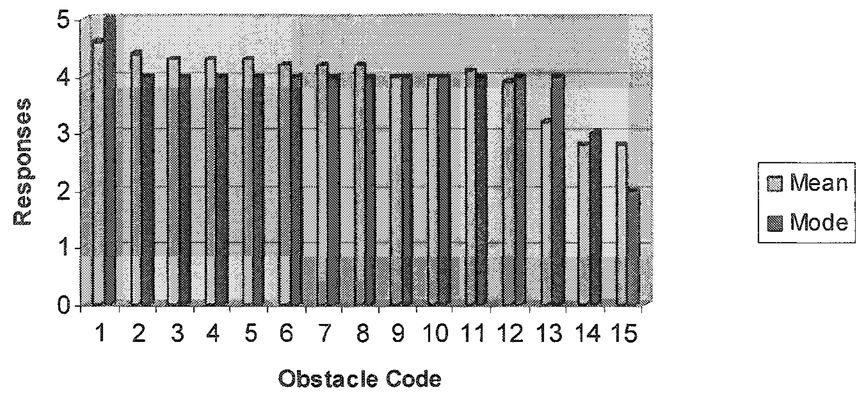
In order to evaluate the opinions of a reliable sample of Libyan businessmen regarding the barriers to the privatization programme, a questionnaire was designed involving 15 factors deemed likely to hamper the process of privatization in Libya. The results are shown in the Table 6.22:

Table 6.22 Obstacles to and Constraints on the Privatization Programme

Code	Barriers	Mean	Mode
1	Lack of Loans and Credit Facilities.	4.6	5
2	Strong Foreign Competition.	4.4	4
3	Lack of Clear Monetary Policy.	4.3	4
4	Poor Infrastructure.	4.3	4
5	Absence of Stock Exchange	4.3	4
6	Legal Transparency.	4.2	4
7	Regulation and Bureaucracy.	4.2	4
8	High Rates of Taxes and Tariffs.	4.2	4
9	Shortage of Data and Information.	4.0	4
10	Disorganization and Corruption.	4.0	4
11	No Government Subsidies.	4.1	4
12	Strong Domestic Competition.	3.9	4
13	Shortages in Skills within the Workforce.	3.2	4
14	Political and Economic Risks.	2.8	3
15	Lack of Discussion on the Subject of Privatization.	2.8	2

Source: *Survey Data.*

Figure 6.3 Obstacles to Privatization (Managers of the NPFs Attitudes)



It is clear from the survey that the participants have a good knowledge of the barriers that tend to limit the chances of a successful privatization programme in Libya. Out of the 15 potential barriers, 13 were considered to produce adverse effects on the process of privatization. Thought to be most important of these barriers were the following:

1. Lack of loans and credit facilities to assist the private sector (mean response of 4.6).
2. Strong foreign competition (mean response of 4.4).
3. Lack of clear-cut monetary policies and restrictions on foreign currencies may discourage the progress of privatization (mean response of 4.3).
4. Lack of reliable infrastructure, such as electricity, telecommunications, airports, ports, water distribution, natural gas distribution, and toll-roads (mean response of 4.3).
5. The absence of an stock exchange which might facilitate the sale of shares and bonds (main response of 4.3).

6. Lack of a free and transparent system for the exchange of information about the local economy, involving information technology and telecommunications (mean response of 4.2).
7. Rules and regulations in respect to taxation and customs (mean response of 4.2).
8. Malpractice such as bribery, nepotism and cronyism hampering economic progress (main response of 4.0).

The opinion concerning barriers to the privatization process expressed by managers of the LNTC and the NPFs are very similar, suggesting that these results are credible and that the barriers are real and applicable to all private institutions in Libya. Table 6.23 compares the two groups of respondents:

Table 6.23 Comparison between the Results Obtained from LNTC and NPFs

Code	Obstacles to Privatization	LNTC		NPFs	
		Mean	Mode	Mean	Mode
1	Lack of Loans and Credit Facilities.	4.6	5	4.7	5
2	Strong Foreign Competition.	4.4	4	4.5	4
3	Lack of Clear Monetary Policy.	4.3	4	4.4	4
4	Poor Infrastructure.	4.3	4	4.3	4
5	The Absence of Exchange Market.	4.3	4	4.3	4
6	Legal Transparency.	4.2	4	4.2	4
7	High Rates of Taxes and Tariffs.	4.2	4	4.3	4
8	Regulation and Bureaucracy.	4.2	4	4.3	4
9	Shortage of Data and Information.	4.0	4	4.0	4
10	Disorganization and Corruption.	4.0	4	4.0	4
11	No Governmental Subsidies.	4.1	4	4.2	4
12	Strong Domestic Competition.	3.9	4	3.1	4
13	Shortage in Skills within the Workforce	3.2	4	3.3	4
14	Political and Economic Risks.	2.8	3	2.8	3
15	Lack of Discussion of Privatization	2.8	2	2.8	3

Source: *Survey Data.*

Figure 6.4 Comparison between the attitudes of Managers of the LNTC and the NPFs towards Obstacles to Privatization

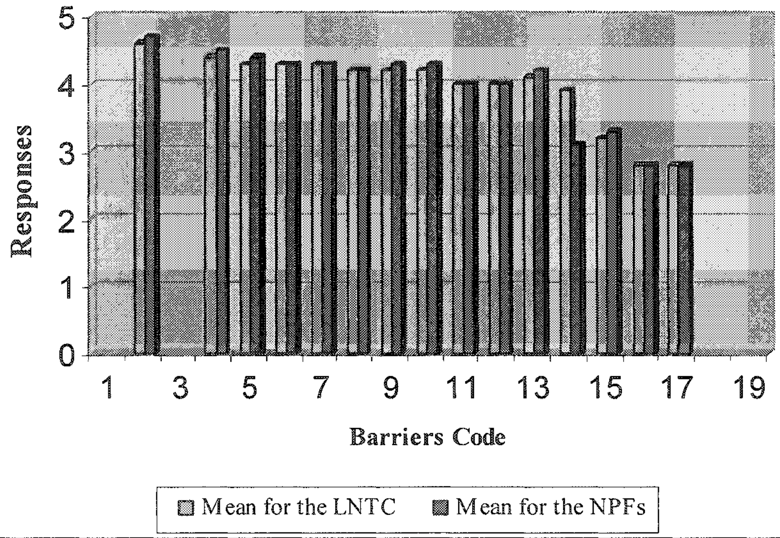


Figure 6.4 illustrates the similar attitudes of managers from both the LNTC and the NPFs towards obstacles to privatization in Libya.

6.4 The Parametric Hedonic Technique

The hedonic technique, which is used to measure price indices and quality change, is generally attributed to Court (1939) and Griliches (1971). Since than the method has been revived several times. The principal is to fit a parametric average price function to price and quality data (Swann and Taghavi, 1992).

A specific problem with the use of the hedonic model is that it is built on a restrictive assumption of perfect competition. However, this is not very surprising, since most economic prediction assume perfect competition.

There are several factors which simultaneously change the objectives of newly privatized firm. Most important are: (1) the ownership transfer; (2) profit maximization; and (3) changes in regulation designed to enhance competition in product markets. Based on these factors, a simple hedonic model is applied to achieve the following aims:

- To test the effects of certain independent variables on profitability as the dependent variable.
- To compare the LNTC and the NPFs in relation to their objectives towards profit-maximization.
- To measure the competitiveness of the two groups of firms in relation to their market.

6.4.1 Sources of Data and Variable Measurement

Secondary data were not used in the hedonic model because of the lack of availability of such data from the firms studied. The data therefore are cross sectional data gathered directly from the questionnaire survey responses. The data were numerically coded to facilitate statistical analysis. Following the coding process, the data were subjected to several statistical tests and then the most reliable variables were chosen to describe the performance of both firms in terms of their performance after the privatization process. The following table describes how the relevant variables were measured in the study:

Table 6.24 Explanation of Sources of Data Used for the Hedonic Model

Numbers and Questions Chosen	Code	Variables	Questionnaire statements
Q. 24 Profitability	Y	Dependent variable	There has been a significant increase in profitability after privatization.
Q. 22 Productivity	P	Independent variable	There has been a significant increase in productivity after privatization.
Q. 27 Capital	K	Independent variable	There has been an increase in the capital after privatization.
Q. 31 Marketing	M	Independent variable	There have been new marketing policies after privatization.

The performance of each firm was measured by the contribution of a set of characteristics; namely profitability, capital levels, marketing and labour productivity.

6.4.2 The Simple Model

A simple linear hedonic model used in empirical research may be represented as:

$$Y_i = \alpha + \sum_{\lambda=1}^{n} B_i x_i + \varepsilon_i \qquad 6.1$$

$$i = 1, 2, 3 \ldots \quad 61$$

where y stands for the extent of profitability, and x_i represents a vector of explanatory variables which are assumed to influence the dependent variable. Finally, ε represents a typical classical error term when $\varepsilon \sim \text{NID}(0, \delta^2)$.

The model is built on the strategy by entering all of the independent variables into the model, and proceed with a stepwise backward hedonic regression. After several estimation trials, the best model was determined to be:

$$Y_i = \alpha + B_1 P_i + B_2 K_i + B_3 M_i + \varepsilon_i \qquad (6.2)$$

Where:

P = Productivity

K = Capital

M = Marketing Strategy

The estimated hedonic model indicates that the model is a good fit, with an adjusted R^2 of 0.657, and an F value of 39.389. Moreover, all the estimated coefficients were statistically significant.

Prior to proceeding with OLS estimation, the basic statistical properties of the independent variables are shown in Table 6.25:

Table 6.25 Basic Statistical Data for the LNTC and the NPFs

Item	Libyan National Textile Company			Newly Private Firms		
	K	M	P	K	M	P
Mean	2.23	2.80	2.57	3.60	3.67	3.30
Median	2.00	2.00	2.00	3.00	4.00	4.00
Maximum	4.00	5.00	4.00	5.00	5.00	5.00
Minimum	1.00	1.00	1.00	2.000	2.00	1.00
Std. Dev.	0.76	1.36	1.32	0.92	1.02	1.13
C.V	34	48	51	25	27	34
Jarque-Bera	11.67	1.81	2.62	2.16	2.30	7.31
Probability	0.002	0.40	0.26	0.33	0.31	0.02
Sum	47.0	59.0	54.0	144.0	147.0	132.0
Sum Sq. Dev.	11.8	37.2	35.1	33.6	40.7	50.4
Observations	21	21	21	40	40	40

Table 6.25 shows the estimation model (6.2) for the entire sample. Based on these basic statistics, it can be concluded that the new firms enjoy a better mix of characteristics, with much higher values than those for the previously public firms. A useful measure of divergence in terms of adoption of productivity, capital and marketing can be found by examining the estimation of CV in these two groups of firms.

On the one hand, for the NPFs there appears to be a lesser degree of divergence in these three underpinnings variables. On the other hand, the LNTC group shows a significant degree of divergence, particularly in productivity and marketing.

The results show that the highest estimated value is for the coefficient of capital with an estimated parameter of 0.799, followed by marketing with an estimated parameter of 0.299, and then productivity with an estimated parameter of 0.180. It is clear from these results that capital has a much greater influence on profitability than the other variables.

6.4.3 Profitability and Quality-Adjusted Profitability

By fitting the observed values of the independent variable into the estimation equation 6.2, the average profitability and quality-adjusted profitability for each group of firms are calculated as follows:

Average: $Y_{LNTC} = 1.47$

Average: $Y_{NPFs} = 3.57$

This suggests that the average NPF is expected to be more than twice as profitable as that of the LNTC. The quality adjusted profitability may be found by calculating:

$$QA\overset{\lambda}{Y} = \frac{\overset{\lambda}{Y}}{b_1x_1 + b_2x_2 + b_3x_3} \qquad (6.3)$$

$$\overset{\lambda}{Y}_{NPFs} = \frac{3.575}{\frac{3.3+3.6+3.675}{3}} = 1.01$$

$$\overset{\lambda}{Y}_{LNTC} = \frac{1.476}{\frac{2.6+2.3+2.8}{3}} = 0.56$$

Based on the findings derived from the hedonic model, the average estimated profit for the NPFs is 1.01, which is much higher than that for the LNTC, despite the fact that the latter group had incumbent advantage in the market-place and also have possessed much greater market share. This suggests that the NPFs have been more concerned about maximizing profits than have the LNTC.

Moreover, as expected, the findings are theoretically consistent with the prediction that newly established private firms are doing better than previously public firms with regard to profit-maximization. Table 6.25 shows the estimated results of the hedonic model for the LNTC and the NPFs separately.

Table 6.26 The Estimated Results of the Hedonic Model for the LNTC and the NPFs

Panel A: LNTC

Variables	Coefficient	Std.Error	t-Statistic	Prob
C	0.018587	0.379438	0.048985	0.9615
Productivity	0.205006	0.070620	2.902951	0.0099
Capital	0.286990	0.125750	2.282228	0.0356
Marketing	0.102556	0.073409	1.397046	0.1804

$R^2 = 0.481605$
Adjusted- $R^2 = 0.390123$
F-statistic = 5.264505
Prob (F-statistic) = 0.009429

Panel B: NPFs

Variables	Coefficient	Std.Error	t-Statistic	Prob
C	-1.206510	0.437420	-2.758239	0.0078
Productivity	0.179814	0.083005	2.166292	0.0345
Capital	0.798955	0.098182	8.137515	0.0000
Marketing	0.298793	0.087483	3.415421	0.0012

$R^2 = 0.674599$
Adjusted- $R^2 = 0.657472$
F-statistic = 39.38946
Prob (F-statistic) = 0.000000

Table 6.26 shows that there are differences in the estimated weights attached to these variables between the two groups of firms. The findings suggest no significant differences in productivity weight between the two groups. However, there are marked differences in the weights attached to capital and marketing in the two groups, with around twice the weight attached to both capital and marketing in the NPFs than in the LNTC. In line with the theory, to improve the reliability of the model, the log linear hedonic model was then tested. Table 6.26 show the estimated results for the log linear version of the hedonic model for the two groups of firms.

Table 6.27 The Estimated Log Linear Hedonic Model

Panel A: (LNTC)				
Variable	**Coefficient**	**Std.Error**	**t-Statistic**	**Prob**
C	-0.468332	0.249546	-1.876735	0.0778
LP	0.280471	0.121674	2.305108	0.0340
LK	0.563332	0.138793	2.476028	0.0241
LM	0.163368	0.227515	1.177067	0.2554
$R^2 = 0.402539$ Adjusted- $R^2 = 0.297104$ F-statistic = 3.817910 Prob (F-statistic) = 0.029337				
Panel B: (NPFs)				
Variable	**Coefficient**	**Std.Error**	**t-Statistic**	**Prob**
C	-0.057002	0.230360	-0.247449	0.8060
LP	-0.001076	0.069087	-0.015568	0.9877
LK	0.708210	0.125014	5.665024	0.0000
LM	0.325383	0.107219	3.034739	0.0045
$R^2 = 0.534628$ Adjusted- $R^2 = 0.495847$ F-statistic = 13.78581 Prob (F-statistic) = 0.000004				
Panel C: Overall Results for the two Groups				
Variable	**Coefficient**	**Std.Error**	**t-Statistic**	**Prob**
C	-0.729006	0.157611	-4.625350	0.0000
LP	0.224304	0.074206	3.022736	0.0037
LK	0.969090	0.116552	8.314693	0.0000
LM	0.336318	0.098215	3.424287	0.0011
$R^2 = 0.696592$ Adjusted- $R^2 = 0.680623$ F-statistic = 43.62197 Prob (F-statistic) = 0.000000				

The results suggest that whilst productivity and marketing appear to be significant in the LNTC group, capital adoption plays a more important role in profitability determination in the NPFs group. Considering these results, it can be argued that whereas productivity is not an issue for NPFs, and hence its estimate is insignificant, marketing appears to be of no importance to LNTC. For this reason, the estimation was repeated after dropping these insignificant variables, as shown in Table 6.27.

The estimated findings in table 6.28 are presented into two panels: panel A representing LNTC and panel B representing NPFs.

Table 6.28 The Re-Estimated Log Linear Hedonic Model

Panel A: LNTC				
Variable	**Coefficient**	**Std.Error**	**t-Statistic**	**Prob**
C	-0.319914	0.217641	-1.469919	0.1588
LP	0.230769	0.115327	2.000994	0.0607
LK	0.615385	0.225553	2.728342	0.0138
$R^2 = 0.353846$ Adjusted- $R^2 = 0.282051$ F-statistic = 4.928571 Prob (F-statistic) = 0.019635				
Panel B: NPFs				
Variable	**Coefficient**	**Std.Error**	**t-Statistic**	**Prob**
C	-0.058544	0.205178	-0.285331	0.7770
LM	0.325714	0.103667	3.141932	0.0033
LK	0.708161	0.123275	5.744572	0.0000
$R^2 = 0.534625$ Adjusted- $R^2 = 0.509469$ F-statistic = 21.25286 Prob (F-statistic) = 0.000001				

Now the two groups tend to attach very similar weights to capital, whilst attaching much lower weights to the other variables. From Table 6.28, whilst the two groups exhibit similar estimated profitability elasticities for capital, there are differences in the way they treat other characteristics.

These results imply that the LNTC, as expected, attach significance to productivity but ignores marketing. Conversely, the NPFs consider marketing as an important issue whilst no consideration is given to productivity[22].

6.5 Analysis of Interviews

The personal interview method constitutes one of the important methods of data acquisition. There are a number of reasons favouring the use of this method, most importantly are: (1) lack of information; (2) the nature of the research may sometimes require accurate and detailed information; (3) the desire to acquire new information that has not been published yet; and (4) the desire to verify information related to the study.

Given the above reasons, this study used this method to gather complementary data to help to fill information gaps left by the questionnaire data. Content analysis was used to analysis the data.

6.5.1 The Choice of Personal Interviews

Interviews were conducted with the General Director and the managers of the main departments of the GBO in Libya. The reasons for this choice is that the GBO is the body that is controlling and carrying out the privatization programme in Libya in accordance with GPC decree no. 198 of 2000, which ordered the establishment of the GBO. Before conducting the interviews they were planned as follows:

1. An official letter of consent to conduct interviews with the target persons was obtained.
2. Some tentative questions related to the subject of the study were prepared.
3. Training and testing the question[23].
4. Some changes were made to the questions.
5. The final questions were written in the form of a questionnaire[24].

A short briefing introduction was given to each interviewee by the researcher prior to interview, including a summary of the aims and objectives of the research. All of the interviews were conducted at GBO headquarters in Tripoli, and the interviews lasted on average between one and half and two hours.

6.5.2 The General Board of Ownership

Usually prior to privatization the state establishes a body whose main role is to control and carry out the privatization programme (El-Naggar, 1989; Fadhel, 2004). Libya established the GBO, which is directly affiliated to the GPC to carry out and control the privatization programme in accordance with GPC decree no. 198 of 2000. The first interview question concerned the main objectives of the GBO. The following are the answers of the participants:

> The selection of the main public economic units to be privatized, evaluating the economic condition of the selected units, signing the sale contracts with the new owners whether foreign or local, licensing new investment projects and sorting out the problems of the redundant workforce following privatization.

The establishment of a body to control the privatization programme in Libya may be considered as a positive step giving an indication of the commitment of the state in putting the programme into application. However, existence of this body could not ensure the success of the programme, which would depend on a number of factors, such as the existence of the right managerial and technical skills. Several shortcomings of the GBO can be identified: (1) The GBO is a newly established body; (2) the staff have inadequate skills and lack training, and most were delegated from other public bodies; and (3) the huge task and duties entrusted to the GBO given its limited personnel.

6.5.3 Aims of the Privatization Programme in Libya

The privatization process constitutes an important part of the process of economic restructuring aimed at achieving economic efficiency. In the light of the fact that the privatization process redefines the role of the state in the economy, it is an inherently political process of enhancing the economy by adding new dimensions to economic activity. These dimensions include creating jobs in the labour market and boosting investment in the private sector (Al-Faitouri, 2003; Megginson and Netter, 2001). The interviewees were asked why opting for privatization was thought to be worthwhile for any state planning to engage in the process. The responses can be summarized as follows:

> To promote wider share ownership; to increase the role of the private sector by providing them with the opportunity to introduce competition; and boosting competitiveness in the areas of production and services.

The responses indicate that the declared aims of the privatization programme do not necessitate rushing into carrying out the programme. These aims seem to be simple and can be gradually achieved through different methods consistent with the efforts being made to create the right environment for the transformation process. On the other hand, a rush for privatization could be result from urgent economic pressures such the accumulation of foreign and local debt, sustained budget deficits, pressure from international monetary organizations such as the IMF and the World Bank. None of these circumstances apply to Libya. However, it is not argued that the privatization programme is not worthwhile, but that it might tend to improve the target organizations. Moreover, privatization might even have a positive impact on the units that remain under the control of the public sector, which will find themselves under increasing pressure to improve their performance in order to cope with the new competitive environment.

6.5.4 The Role of the State in the Next Phase

As mentioned early, the aims of privatization outlined by the state highlight the following facts:

1. The transformation from the public to the private sector and the appropriate policies sorting out problems associated with this transformation.
2. Motivating the private sector for investment in new projects capable of accommodating the unemployed.
3. Setting the economic balance right by introducing whatever policies and proceedings are needed regarding protection, supervision and control.

In regard to the transformation of the public sector into a private sector the state drew up plan in 2003 to transfer the ownership of 360 economic units in the fields of manufacturing, agriculture, animal resources and marine resources. The transfer process was to involve the following three phases, as shown in Table 6.29:

Table 6.29 The Stages of Transforming the Public Economic Units

Activity	First Stage	Second Stage	Third Stage	Total
Manufacture	145	41	18	204
Agricultural	28	4	24	56
Livestock	71	-	11	82
Marine	16	1	1	18
Total	260	46	54	360

Source: *Survey Data.*

The first phase involved the transfer of 260 production units by the end of 2005. These target companies were classified into three categories according to competence and sustainability.

It was realized that 192 of these units would be potentially viable provided that they were given some financial assistance to pay their debts to the banks, the social security fund, the tax and customs department and the electricity department. These debts were to be paid by either the Local Production Sponsorship Fund (LPSF) or the state depending on the individual case. The total debt of these companies was estimated at LD 549 million. In this regard the interviewees were asked how the employees of these firms would be treated. The answers were as follows:

> The programme will address the issue of redundancy by offering loans in the case of voluntary redundancy, otherwise the provisions of law no 269 of 2000 should be invoked. This law allows those who have been made redundant as a result of liquidation, merger or reorganization to continue to receive their wages temporarily as long as they are not employed for one year, subject to be renewal as provided for by article 2 of the executive regulations of the above mentioned law. However, voluntary early retirement will be the last resort for this group of workers.

Another question was asked regarding how the board would evaluate the target public units. The following answers were given:

> The first phase of this programme will also address the process of evaluating the target companies and production units as well as their potential new ownership as private cooperatives, joint-stock companies or joint partnerships involving foreign investors. The second group of companies in the first phase includes hopeless cases of 57 production units in different economic sectors, with a total workforce of 4000. The prevailing suggestion was that these units should be put up for sale. The third group of companies includes the headquarters of public units transferred to come under the control of the LPSF, featuring 11 companies and employing a total of around 3500 staff. These will be transferred with all their financial commitments, including debts to banks. It is likely that these debts will be handled by the CBL in cooperation with the LPSF.

Table 6.28 also shows that the second phase targets the transfer of the ownership of 46 production units between July 2004 and June 2007, thus overlapping with phase one. The target companies include 30 to be owned as stock companies, and 14 which will be joint ventures involving foreign investors. The remaining two companies are currently owned as joint ventures.

Finally, phase three includes all the big companies considered difficult to sell to the private sector, and given the huge investments involved these companies require more funding to be developed. Totaling 54 companies, these will be put up for joint venture with foreign investors within a period of two years starting between 2004 and 2006. However, the potential national side might include local companies, management and other private sector investors within a two-year period from January 2007 to December 2008. The process of evaluating the assets of all companies involves both book and market values. Interviewees were then asked about the most important executive measures taken for the privatization of these companies. The following answers were given:

> Tariffs on the imports of these companies, including raw materials and other operation facilities were reduced by 50%. Their imports of spare parts and machinery should be customs-free. A 1% fee on all ready-made luxury imports was introduced for the LPSF, and all companies exporting their products should be exempted from tariffs. These companies include the Libyan Company for Iron and Steel, the General Company Chemical Products, the Truck and Van Company, and the Libyan Company for Tractors. This exemption mainly aimed to motivate these companies to explore foreign markets enabling them to compete in those markets, at reasonable prices.

The foregoing shows that the state is planning ahead, with the three phases of the programme spanning a five-year period starting from early 2004 until the end of 2008. However, this period might not be sufficient to transfer the whole of the public sector to the private sector. The reasons for this include:

1. The private sector in Libya lacks the managerial and technical expertise to mange all these production units to international standards in order to compete in foreign markets.
2. Such an optimistic timescale might not be realistic in terms of the willingness of foreign investors to partially or totally own the companies and production units currently on offer. Given the fact that foreign investors are also expected to invest in new projects.
3. The programme gives no estimate of the value of the target units, and yet this value might total billions of Libyan Dinars. It is unlikely that the private sector could afford to pay such a huge sum within a five-year deadline.
4. Considerable proportion of the workforce will be made redundant during this period. 4000 staff are employed by the 57 hopeless units, and 3500 are employed by the public companies and departments to be transferred to the LPSF. In addition some will be made redundant in the other 192 unit.

However, it is most unlikely that this redundant workforce will be accommodated elsewhere. In most cases these workers need retraining, as would newcomers to the labour market and those already unemployed and looking for jobs.

Therefore, unless a rapid economic growth is achieved within the next five years to cope with the situation, the outcome will be rising unemployment levels. This will have a negative economic impact and thus put the whole privatization programme in jeopardy.

6.5.5 Motivating the Private Sector for New Investment

The role of the state becomes important in motivating the private sector, and this should not be limited to the transfer of ownership of existing production units, but should also try to establish new production units in all economic sectors so as to boost economic growth, to reduce unemployment, increase individual income and improve living standards. In late 2003 the state introduced a programme to establish new projects in order to revive the economy. This programme suggested a number of production projects to be completed within a period of 3 to 5 years starting from 2004, involving two stages.

The first stage concerned private sector projects in the form of cooperatives and stock companies classified as small or medium sized projects. As shown in Table 6.30 below a total of 3219 projects were expected to create 18.999 jobs with a total investment of LD 819.6 million.

Table 6.30 Projects of the Private Sector

Activity	No. of Projects	No. of Jobs Created	Average Employment per Project	Total Investment
Manufacture	544	7419	13.6	506.2
Marine	815	7080	8.7	189.7
Agriculture	585	2000	3.4	27.8
Livestock	1275	2500	2.0	95.5
Total	3219	18999	5.9	819.6

Source: *Survey Data.*

From Table 6.30 it is clear that individual and family activities in agriculture and animal resources would each involve on average 2 to 3 people, with the capital invested not exceeding LD 75 thousand for agricultural projects. On the other hand, the manufacturing projects mostly fall into the light to medium category with no more than 14 people employed and an average capital investment of not more than LD one million. Here, the interviewees were asked what were the main purposes of these projects were. The answer given was as follows:

> The main aim behind them is to employ the workforce that will be made redundant by the transfer of ownership of the companies to the private sector or those who are made redundant by the liquidation of hopeless companies.

The second stage of the new project programme concerned joint venture, development and expansion projects. Most of these projects include traditional and strategic industries such as aluminum, the cement factory in Jafara, the expansion of the iron and steel complex, and two factories at Zulitin and Libdah. There are 16 projects in total including 11 for joint investment and 5 for expansion and development. The interviewees were also asked about the aims and funding of these projects. The answers were as follows:

> If things go according to plan, these projects are expected to create 5840 jobs with a total investment of LD 2.503 billion. The funding of these projects will be as follows:
> 1. The development projects will either be self-funded or funded by loans.
> 2. The strategic projects will be funded by long-term loans provided by local and international financial institutions.
> 3. The infrastructure projects will be funded by the state.

Table 6.31 illustrates the state programme involving the joint venture, expansion and development projects as follows:

Table 6.31 Joint, Expansion and Development Projects

Type of Project	Number	Project Costs	No. Employed
Joint Venture	11	2066	5290
Development and Expansion	5	437	550
Total	16	2503	5840

Source: *Survey Data.*

From Table 6.31 one can see the huge sums involved in the funding of this programme, which exceed LD 3.3 billion within 3 to 5 years. However, the fact that most of the capital required for investment is expected to come from abroad as foreign investments is likely to constitute a major setback for the programme as foreign investors might not be prepared to invest such huge sums in such projects.

This programme will be problematic for local financial institutions, given their limited resources, unless a new fund is established by the state to increase credit facilities for these projects. From the foregoing it could be concluded that this programme is over-ambitious and over-optimistic.

The following table gives more detail of the public economic units that will be privatized by GPC decree No. 100 of 2004:

Table 6.32 Distribution of Public Unit Targeted by GPC Decree No.100 of 2004 and the Method of Privatization

No	Municipalities	Stock Market Firms	Small Enterprise Firms	Total	Total Value of Assets
1	Tripoli	9	4	13	5,76,620
2	Tajjora	3	4	7	3,171,412
3	Trhona	1	3	4	7,273,412
4	Benghazi	9	-	9	18,136,541
5	El Marg	-	2	2	402,921
6	Misurata	2	2	4	8,796,214
7	El Margab	3	10	13	5,240,764
8	Ben Waled	-	3	3	644,629
9	Derna	-	2	2	490,519
10	Green Mountain	-	3	3	2,335,691
11	Tobruk	-	4	4	463,944
12	El Gouba	-	2	2	520,254
13	Sirte	1	6	7	1,725,376
14	El Qufra	-	1	1	48,228
15	Zawia	1	1	2	1,961,425
16	Nekkat El Khoms	1	11	12	7,143,061
17	Sibrata and Srman	-	2	2	1,828,953
18	Sebha	2	4	6	3,234,584
19	Murzq	-	1	1	449,567
20	Wady El Shatee	-	1	1	319,046
21	Wady El Haya	1	8	9	535,925
22	El Geffra	2	5	7	6,832,925
23	Gherian	-	3	3	11,918,201
24	Yefren	-	4	4	695,339
25	Ghadamis	-	2	2	865,088
26	Ajdabia	-	1	1	1,970,751
27	Nalut	-	1	1	502,255
Total		**35**	**91**	**126**	**75,811,422**
Average Unit Value		**1,456,619**	**272,855**		

Source: *The GPC Report, 2004.*

6.5.6 Providing Guidance and Advice to the Managers and the Workforces of the Target Public Units

The role played by the media in the success of any project is indisputable. Hence there is a real fear that any misunderstandings concerning the privatization programme by the managers, workers or policymakers involved might incite opposition which might lead to the failure of the whole programme.

Consequently, in order to avoid such consequences the initiative should be taken in trying to win the support of the workforces and managers of the target units.

Therefore, the GBO established an independent information centre aiming to hold symposia and conferences on the subject of privatization, and also a seasonal magazine given the importance of this issue, the interviewees were asked whether or not the GBO has been done any programme related to this issue. The answers were as follows:

> No programme or plan of work has been made so far, regarding this issue.

It is therefore expected that this issue will constitute another obstacle that will face those in charge of the privatization programme.

6.5.7 Lessons which could be Learned from the Experience of LNTC

In response to a question concerning lessons learnt by the GBO from the LNTC experiment, most of the participants found it difficult to assess the experiment due to the following reasons:

1. It is the first attempt in Libya in the field of privatization programmes.
2. The process has targeted only the workforce as potential new owners for the privatized factories.
3. The privatized factories operate in the textile business, which depends to a great extent on the tastes and interests of consumers; hence this makes the marketing of local products difficult without providing the necessary protection against foreign competition.
4. At the time, the legislative aspects of the privatization programme have not been completed.

The answers given by the interviewees make it clear that they are well aware of the difficulties that have faced the privatization of the LNTC. Nonetheless, from their evaluation of the experiment most respondents agreed that it has been a success to some extent, especially during the early years following the transfer of ownership.

6.5.8 Lessons which Could be Drawn from Experiments in Other Countries

Libya began its privatization programme later than most countries. The first practical action of the state towards privatization started in 2000 following the establishment of the GBO. Therefore Libyan policy-makers should have been able to examine similar experiments in other countries, for instance, assessing the strengths and weaknesses of privatization programmes in Arab countries. The following point was made by interviewees:

The board made limited contact with Egypt, Jordan and Morocco.

It is worth mentioning that there are many lessons can be learnt from the experiments of other countries, taking into consideration the characteristics of their various economies. However, in the case of Libya the main differences are:

1. In Libya investment capital is available in abundance.
2. In many countries economic reform has been inspired by the desire to join the European Union, which puts initial economic reform as a precondition for joining as in the case of Eastern European countries. This situation does not apply to Libya.

6.6 Conclusions

This chapter has examined the performance of the LNTC and the NPFs after privatization. Three important issues have been discussed.

Firstly the attitudes of managers and workers towards the privatization process have been examined. The results obtained from the field survey show that most managers were not in favour of privatizing their factories. On the other hand, the results unexpectedly indicated that the workers were in favour of privatization.

Secondly, the main factors that might influence privatization in Libya were discussed, giving specific emphasis to the barriers and constraints that faced privatized firms. Some of the interpretations made here were based on informal interviews conducted with managers.

Thirdly, a comparison was made between the LNTC and the NPFs in terms of the performance of the two groups. This chapter also reviewed and analyzed the data collected from personal interviews with GBO staff.

Generally speaking, the results indicate that privatization led to no major improvements in the performance of factories of the LNTC. Moreover, compared to the relevant literature on the impact of privatization on employment in developing countries, the results indicated that employment was increased, but not significantly. Another important result was that there were many barriers and constraints facing the private sector in Libya.

Finally, based on the findings of the use of the hedonic technique, the results suggest that newly private firms have performed better than the factories of the LNTC in terms of profit maximization. The next chapter will reflect, in more detail, on the study's findings.

Endnotes

---

[1] These results were obtained from the questionnaire survey (Q1).

[2] This result goes against the argument in the literature that workers never favour privatization. One possible explanation for their support lies in the bad financial situation in their firms at that time.

[3] The slogan "Partners, not wage earners" is Alqadhafi's vision indicated that workers should become direct partners in the production process, as described in one of the volumes of the Green Book.

[4] For more detail see a copy of the questionnaire for managers, section C, Q17- Q31 attached in the appendix 1.

[5] For more details about these questions, see the questionnaire attached in the appendix 1 and 2.

[6] This result contradicts with Omran (2004) and Boycko et al (1996) argument that privatization will lead to a reduction in output.

[7] This result was obtained from an informal interview with the ex-manager of the Libyan National Textiles Company.

[8] These results were obtained from informal interviews with managers.

[9] In terms of the issue of profitability the results of the study contradict the findings of Boardman and Vining (1989), Dewenter and Malatesta (2001), and Boubakri and Cossett (1998), who found that SOEs are significantly less profitable than private firms. Also the findings contradict Cosset (2003) who showed that privatization leads to an increase in profitability, efficiency, and output in former SOEs in Asia.

[10] Governments should usually absorb the debts of SOEs before sale, but there is no golden role (World Bank, 1995).

[11] These results were obtained from informal interviews with managers.

[12] El-Naggar (1989) argued that enterprises need to be classified for privatization according to whether they are making profits or losses, the debt-equity ratio and the size of the workforce.

[13] These results were obtained from informal interviews with managers.

[14] The managerial view, based on agency theory, is that SOEs have difficulty monitoring managers because there is neither an individual owner with strong incentives to monitor managers nor a public share price to provide information about managers' actions as judged by stock market competition (Laffont and Tirole, 1993).

[15] On this issue Pinheiro (1996) concluded that privatization significantly improved performance. The results were stronger for companies that had been recently sold, indicating that privatization works better when combined with liberalization measures that remove barriers to entry.

[16] Heller and Schiller (1989) argued that, in many developing countries, fundamental structural reforms in the policy environment are essential for improving the efficiency and profitability of privatized firms.

[17] A central bank was established under the name of Central Bank of Libya by low No.1 of 1993 with a corporate identity, an independent financial liability and a total capital of one hundred million Dinars.

[18] For more discussion on the issues of empirical evidence on bank privatization see Boubakri (2005) and Megginson (2005).

[19] Recent studies have found a positive relationship between the development of a nation's stock market and greater efficiency and growth (Levine, 1997) and between stock market development and privatization (Demirguc-Kunt and Levine, 1994).

[20] A well developed financial system helps privatization by allocating funds to more efficient firms, makes less efficient firms restructure or fail and efficiently redeploys the assets of bankrupt firms (Demirguc-Kunt and Levine, 1994).

[21] The number of employees in Libya who work in the public sector exceeds 800.000 (from an interview with the prime minister of Libya, 2004, www.libya.today.com).

[22] Barberis et al (1995) indicate that the restructuring requires new people who have new skills more suitable to a market economy. Further they argued that without new people, incentives for old people might not be particularly in bringing about significant change.

[23] The researcher visited Libya while a conference was being held at the Post Graduate Academy in Tripoli from 9th to the 13th of March 2005 to discuss the privatization of the Libyan economy. Hence, the questions for the interviews were distributed among a sample of scholars and experts in the fields of economics and administration attending the conference.

[24] For more details of the interview questions see appendix 4 attached.

CHAPTER SEVEN

SUMMARY, CONCLUSIONS AND POLICY RECOMMENDATIONS

7.1 Introduction

As recently as two decades ago, despite leaving commercial activities to be run by the private sector, most developing countries saw the state as the engine of economic development. However, the end of the 1980s witnessed a reassessment of the role of government. In other words, there has been a major change in global orthodoxy concerning the role of government regarding the private ownership of firms and property.

The concept of privatization may be defined narrowly or broadly. Narrowly, it concerns with the sale of publicly owned enterprises' assets or shares to individuals or private firms (the transfer of ownership from public to private). The broader meaning refers to restricting the role of government and its functions or policies in order to strengthen a free market economy. The term "privatization" was literally created by the Thatcher government who came to power in 1979 in the UK. Since then almost every country has divested some or all of its state enterprises or has involved the private sector in managing and financing activities previously owned and operated by the state. Thus, privatization has become one of the most significant economic phenomena of recent years. In particular, its capability to raise firm efficiency has been the subject of debate among policy makers and researchers examining the causes and consequences of the process.

This thesis has discussed many vital issues related to the Libyan economy in general and the privatization programme in particular. The study has used a triangulation method to achieve its objectives, including descriptive-analytical and field study approaches. It has relied upon a questionnaire survey and in-depth interviews using content analysis techniques to acquire the necessary data. The most important reason for relying so much on these two methods was the lack of information available on the subject of this study.

The current study has examined the performance of the LNTC after the privatization process and compared it with the NPFs in the private sector. The study has also discussed and identified barriers impeding the successful progress of the privatization programme in Libya.

The specific objectives set out in the study are firstly to provide a descriptive analysis of the privatization process in Libya comparing it with models of privatization developed in the literature, and identifying problems of implementation. Secondly the attitudes of managers about the main barriers to privatization in the Libyan economy were sought, by undertaking a field study of the factories of the LNTC. In addition, the field work included studying a sample of NPFs created since 1994. The research examines the strengths and weaknesses of the privatization programme in Libya, with special reference to the case study; and provides policy recommendations in relation to future privatization plans in Libya.

This chapter summarises the main findings of the study, and discusses its policy implications and makes recommendations, and suggests areas for further research.

7.2 Summary of the Study

It is well recognized that privatization is not a simple and smooth process to implement due to the fact that it might to encounter numerous obstacles and pitfalls at the economic, social, and political levels.

Chapter 2 presented an overview of privatization practices with a reference made to various developed and developing countries involved in the process. Different definitions of privatization were presented focusing on both narrow and broad meanings of the term. Also, three relevant theories of privatization were examined, namely property rights theory, principal-agent theory, and public choice theory. These theories place different emphases on the objectives, incentive structures and constraints that confront the state and private enterprises in explaining the inefficiency of state-owned vis-a-vis private enterprises. The three theories suggest that the change of ownership from public to private leads to improvements in economic performance. Chapter 2 also reviewed different methods of privatization. It is noted that every method has its advantages and disadvantages. Therefore the choice of method is likely to depend on a number of elements, the most important of which are the purpose of privatization, the size and activities of the companies subjected to privatization as well as their financial status, the legal framework, the maturity of the stock exchange and the quality of investors and buyers.

Privatization can produce mixed outcomes. The transfer of ownership alone can not guarantee better post privatization performance since privatization is a complicated process involving changes across individual, organization, and industry level. It can create both favourable and adverse results.

Chapter 4 discussed the requirements of economic reform in Libya, which imply the interaction of a number of factors: the existence of clear convictions about and political will for change; a high degree of transparency and accountability within a suitable legal framework; the development of institutional capacity; and an enhancement of the role of the state in controlling and organizing the process of economic reform.

In an overview of the Libyan economy, chapter 3 reviewed the economic situation before and after the discovery of oil, highlighting the most important features of the Libyan economy. In the early twentieth century, the Libyan economy was dependent on agriculture, including barley, wheat, and dates, in addition to production in some basic industries such as shipbuilding and handicrafts. At that time Libya was an Italian colony and it can be seen that the monetary system and banking sector were integrated into the Italian banking system. By 1945 the Libyan banking sector and monetary system had broken down, and all Italian banks closed.

The situation changed significantly once oil was discovered in commercial quantities. The country moved from being a deficit to a surplus economy. Consequently GDP and per capita income increased. In addition, oil exportation provided Libya with considerable foreign currency, which affected the Libyan economy deeply. Oil revenues gave the Libyan government enough funds to enable it to play a major role with regard to the development plans. This encouraged the Libyan government to establish an independent monetary authority, taking advantages of the new economic situation following the oil discovery.

The two most important characteristics of the Libyan economy are its dependence primarily upon revenues from oil, and the domination of the state over most economic activities. This was as a result of the economic and social transformation plan for the period 1976-1980.

Economic restructuring in Libya up to the mid 1980s entailed a high degree of interference by the state in the domains of production, distribution and investment. This interference involved the issuing of a vast set of regulations, laws and restrictions concerning price-fixing, protection and commercial, financial and monetary policies. At that time the role of the private sector has retreated to the lowest possible level in all activities, but during the 1980s and afterwards publicly owned productive units (in particular, industrial ones) were unable to produce enough surplus to recover the capital spent on their establishment or the necessary hard currency to diversify sources of income. Most of these industries (except for the hydrocarbons industries) were directed towards the substitution of imports and were protected by a framework of financial support and allowance for imports. Generally, the profitability of these industrial enterprises was very low, and a good number of them continued to make losses. This led to the public budget having to shoulder the burden.

It became evident that this situation could not be rectified because of the institutional structure and the economic policies practiced. Examples of the most important factors here include:

1. Lack of hard currency and the insufficiency of banking credit or delays in obtaining it, which contributed to shortages of spare parts and other requirements for production, and a scarcity of financially and technically trained labour force.
2. Shortage skilled labour.
3. The government controlled price levels.
4. Low standards of managerial performance and a consequent lower production levels.

It was clear that a solution to these problems could only be found through radical measures to be applied on a wide scale, including the internal status and external conditions of these institutions. In addition, it became clear that it was impossible for these institutions to continue under the monopoly or management of the state. Thus came the trend to privatize organizations in the fields of textiles, food, building materials, and chemicals.

The privatization of some firms, especially between 1989 and 1992, concentrated on the aforementioned fields, but the process was flawed due to two areas of problem:

(i) No necessary procedures were installed to secure the success or good performance of the firms after their privatization, such as restructuring, assessment, and regulations.

(ii) No supportive policies were formulated in an orderly way, such as those related to the internal/external environments, competition, and government commitment.

It is clear that the productive performance of the privatized firms was very modest, with a decline in rates of production during 1988-1993. Perhaps the methods followed in the transfer of ownership were partly responsible for this, because these firms had not been restructured prior to privatization in such a way that could secure good performance afterwards. Furthermore, these firms continued to work under the state control, and the ownership was restricted to those working in the firms. All this contributed to the continuation of the same practices in management, the organization of production and pricing.

This study has specifically addressed both the administrative and the economic aspects of privatization. In this regard, the research paid attention to one of the key factors in the smooth implementation of privatization. This factor concerns the attitudes of managers and the workforce towards privatization, which according to recent studies conducted by El-Afify (2001) and Awamleh (2002) is a very important factor. In relation to the management, the attitudes of managers and workers before the implementation of privatization have been examined. The results showed that most managers opposed the privatization programme, whereas the majority of the workforce had been in favour of it.

The performance of both the LNTC and the NPFs was measured by examining financial indicators such as profitability, labour productivity, sales, employment level, methods of production and reductions in unit cost after privatization.

Contrary to recent research in this area in other countries, the findings of the field survey indicated that the LNTC showed no major improvement in performance or the economic status of the workforce after the privatization process. Neither the managers nor the workforce enjoyed any increases in wages following privatization, and the conditions of work remained largely unchanged. No plans for bonuses or other incentives to motivate workers were introduced following privatization.

From the application of hedonic technique, it was found that the NPFs have been more successful in profit-maximization strategy than the LNTC. Moreover, although many studies predict that privatization will lead to significant redundancies, the results of this research indicate that workforces have slightly increased following privatization. However this appears to have noting to do with economic policies, but it is rather inspired by a public sector-oriented mentality.

The experience of Libyan privatization so far has been partly successful in relation to the newly privatized firms. The results show similar barriers and constraints faced by both the LNTC and the NPFs, however, the latter firms have been doing better in regard to profit maximization.

The results obtained from the hedonic approach demonstrated that the average estimated profit enjoyed by the NPFs is much higher than that of the LNTC. The findings of this study do not generally support theories of privatization which suggest that privatization leads to improvements in performance and working conditions in privatized firms.

From the present analysis, it is obvious that the desired objectives of the state have not matched their expectations. Serious problems were encountered, especially in restructuring. The research has highlighted many areas in relation to poor performance as follows:

1. Most of the managers and the workforce of the LNTC lacked the necessary qualifications and knowledge which may have not made them aware of the real aims of the privatization programme.
2. The privatization programme led to no major improvements in the performance of the factories. The most important indicators of this are that: (a) capital investment never materialized; (b) production costs remained high; (c) modern technologies were not introduced to improve production; and (d) sales remained as low as ever.

The results of the personal interviews indicated that Libyan policy makers need to understand the complexity of privatization if they hope to develop an effective implementation strategy. The following are the most important results:

1. A five-year deadline for the transfer of ownership from the public to the private sector may be inadequate, due to the reasons discussed in chapter 6 section 6.5.3.
2. The absence of a clear and feasible plan for the target public units.
3. The absence of a clear plan regarding the use of the revenues generated by selling the target units.
4. Using both book value and market value did not allow the accurate worth of the target public units to be assessed.

5. The legal and administrative processes used to encourage individuals to join the private sector were inadequate. For example, the property right acts would require the state to declare the incentives that it would provide to local and foreign investors to encourage them to join the private sector.
6. There was a lack of guidance and advice to managers and the rest of the workforce in the target units to make them aware of the importance of privatization and the benefits they would gain from it.

7.3 Conclusions and Policy Recommendations

There are a number of prerequisites for privatization to occur successfully, most importantly, the domestic private sector must be sufficiently equipped with adequate managerial and technical capabilities. However, based on the empirical findings of the study, the following tentative recommendations can be made to the Libyan government which may help to introduce and manage a strategic shift towards genuine privatization in Libya:

1. The privatization process should not be deemed as an objective per se but rather as a means for achieving other objectives. In other words, it is a means to an end, rather than an end in itself. It should not target material aspects only, but the state should rather concentrate on the importance of privatization as a socio-economic process capable of boosting production and improving the quality of goods and services for people.
2. Privatization can be regarded as a good example of public choice and rent-seeking structures. In the case of Libya in particular, this would make a significant change in the government's mode of control and ownership of national assets.

3. Promoting the independence and transparency of the judicial system should create trust in the credibility of the country's laws and regulations.
4. Enhancing access to information should lead every institution to be obliged to disclose its own statistics in order to help people to make the right decisions.
5. Encouraging symposia and conferences on the impact of privatization in the Libyan economy could address its advantages and disadvantages based on proper scientific analysis. This could create the appropriate environment for economic activities and different social groups in Libya to play their full roles.
6. More comprehensive field surveys need to be conducted concerning the main barriers to privatization in the Libyan economy and the impact of these barriers on different economic activities in the light of the outcome of the privatization of public sector.
7. Winning the confidence of the private sector is necessary by showing the real seriousness in executing projects through consistent investment policies and by providing the necessary assurances to investors.
8. Restructuring monetary policy should include a new role for the Libyan Central Bank and its functions in order to fight inflation, and restore the credibility and reliability of the Libyan economy.
9. Introducing macro-economic policies that would tend to liberalize the economy could pave the way for a stable economic environment. However, in order to achieve that aim, these policies should include the following:

(i) Clear credit policies should be introduced.

(ii) A suitable environment should be created to encourage competition between different economic organizations.

(iii) A stock exchange should be established and developed to cope with international markets in order to accommodate privatization policies. This would allow the smooth transfer of ownership of the privatized institutions to investors, rather than putting them on auction, which confuses investors as to the real value of these institutions.

(iv) Clear cut policies should be introduced that would encourage local and foreign investors to take part in the different economic activities that will contribute to economic growth.

(v) The tax system should be adjusted in such a way that it can be easier to impose and collect taxes at rates which are not harmful to the development process with much better organized tax-offices.

(vi) Public debt and public spending should be cut in order to reduce budget deficits.

(vii) The necessary legislation should be introduced to protect consumers, including the right mechanisms to enforce this legislation.

10. Proper guidance and advice should be provided to the managers and workforces of the target public units, making them aware of the personal benefits of privatization in order to win their support.

11. Gradual privatization is recommended at the beginning in order to overcome many problems such as unemployment.

12. Restructuring and rehabilitation of public units subject to privatization. The following steps might be useful:

    (i) The beginning of the privatization programme should feature the selling of the most successful organizations to local or foreign investors. This will attract investors to take part in different economic activities.

(ii) Determining in advance the number of workers that will be made redundant following the privatization programme.

(iii) Providing loans to those who are made redundant for funding small projects owned by individuals, which will tend to encourage these individuals to give up their jobs and establish their own businesses.

13. A number of amendments to the current privatization programme in Libya should be considered:

(i) The five-year transitional period for transformation from the public to the private sector should be extended to ten years or more.

(ii) Making use of revenues from the assets of the companies for improving the units to be sold to the private sector as well as allocating part of these revenues to establish a fund to assist the unemployed.

(iii) Learning from successful experiences in other countries regarding privatization. The Egyptian and Malaysian approaches to enterprise reform and ownership change might be as appropriate model to follow.

(iv) Introducing a comprehensive plan to reform unsuccessful SOEs.

(v) The incentives to be provided to new companies should be made clear. These incentives should include the complete elimination of tariffs on imported raw materials and the protection of these companies from foreign competition by temporarily imposing high customs duties on similar imported products.

Finally, despite evidence of success in privatization in many countries, analytical work suggest that the establishment of new firms in transitional economies could be more important than privatizing existing firms in terms of generating growth in output and employment (Elborgh-Woytek and Lewis, 2002; Faitouri, 2003; and Kikeri and Nellis, 2004).

In the case of Libya, as shown by our findings, the Libyan government should make more effort to promote new enterprises.

7.4 Contributions of the Study

The contribution of this study can fall within five main areas as follows:

1. Although analysis of the effects of privatization on performance has been extensive, no empirical study has previously focused on the Libyan experience. This study is the first of its kind in offering a critical notion of privatization in Libya. The focus on Libya is of interest for several reasons: Firstly, privatization is now at the top of the political agenda in Libya; secondly, the Libyan government has been willing to develop international links through the WTO, and its recent policies at encouraging workers and managers towards private sector activities; and finally, the Libyan experience could provide new insights in the debate on the effectiveness of privatization and the underlying conditions for success.
2. Due to lack of published data, this research has embarked on a significant survey (questionnaire and interview) of the privatized firms in Libya. The initial report and findings can be of great assistance to researchers and policy-makers.

3. Evidence from empirical studies of the need for both micro and macro-economic reform for successful privatization programmes is not extensive. However, this study focuses on both micro and macro-economic perspectives, in the light of difficulty in isolating the variables that have an influence on post privatization performance.
4. Because this study is based on an extensive questionnaire survey within the textile sector in Libya, it is likely that the findings represent a wide area of opinions about privatization issues in Libya. Therefore, the policy recommendations in this thesis can be made with greater confidence.
5. The research has developed new knowledge in two particular areas of the field of study, as well as developing the application of interview techniques and methods of large scale questionnaire survey data collection.

7.5 Limitations of the Study and Areas for Further Research

1. The basic methodological limitations in this study are similar to those discussed in Megginson and Netter (2001). The most important problem is data availability due to the difficulty of obtaining financial data from the privatized firms. Hence, this study has relied on questionnaire surveys and personal interviews to acquire the necessary data. Further study would be useful in analyzing published data from such firms, for example from annual reports, balance sheets, and other financial data. Otherwise, by measuring the performance at the macro economic level in terms of several indicators such as the overall deficits, impact on the government budget, rate of return on capital invested in public enterprises, impact on balance of payments, and international competitiveness.

2. Since the privatization programme in Libya has only recently been implemented, it has not been possible to analyze a large number of privatized firms for this research. In the near future researchers could undertake further studies on privatization in Libya focusing on larger number of cases.

To sum up, this study provides some small clues towards solving the puzzle of privatization. It is hoped that it will point researchers, managers, and policy-makers towards fruitful directions as they search for more insights into privatization. Additionally, the current thesis is a single study for a single country, but it is reasonable to suspect that these findings apply in many other developing countries.

BIBLIOGRAPHY

Abu Snina, M. (1997). The General Framework of Restructuring the Libyan Economy. *The Economic Research Centre,* Conference, Benghazi-Libya (in Arabic).

Adam, C. (1994). Privatization and Structural Adjustment in Africa. In W.Van Der Geest (Ed.) *Negotiating Structural Adjustment in Africa.* London: James Currey.

Al-Bilawi, H. (1998). *Role of the State in the Economy.* Dar Alsoroq: Cairo (in Arabic).

Al-Jhemy, M. (1992). *The General Principles for Restructuring the Libyan Economy*, The General Board of Scientific Research, Tripoli: Libya (in Arabic).

Al-Kandari, A., & Abdel-Dayem, M. (1993). *An Introduction to Research Methodology in Education and the Human Sciences.* Kuwait: Alfalah Library (in Arabic).

Allan, J. (1982*). Libya Since Independence*. London: Croom Helm.

Almansouri, A., & Alfarisy, A. (2004). *Privatization in the Libyan Economy.* The Economic Research Centre, Benghazi-Libya (in Arabic).

Al-Mugairbi, Z. (1995). *Civil Society and Democratisation in Libya.* 1977-1994. Cairo: Ibn Khaldoun Centre for Developmental Studies (in Arabic).

Al-Mugairbi, Z. (2003). The Political, Legal and Institutional Requirements for Privatization, Paper Presented at the *Conference on Economic Development in Libya: Past and Present*, Benghazi-Libya (in Arabic).

Alqadhafi, S. (2002). *Libya and the 21 Century.* One 9 Media (in Arabic).

Al-Robiai, F. (2004). *The Impact of Privatization on Development in the Developing Countries*. Cairo: Madboli Library (in Arabic).

Al-Salmi, A. (1991). *Production Management.* Cairo: Dar Garib for Publishing (in Arabic).

Al-Sarhan, M., & Presley, J. (2001). Privatization in Saudi Arabia: An Attitudinal Survey, *Journal of Managerial Finance*, 27, pp.114-122.

Al-Teer, O., & Ezzabi, K. (2002). *The Libyan Jamahiriya, Social and Political Development.* Tripoli: Dar Al-Nahda Alarabia (in Arabic).

Al-Zahf Al-Akhdar newspaper, Different Issues.

Arabic Monetary Fund (1998). *National Accounts of Arabic States 1987-1997*, Vol.18. Abu Dhabi: UAE.

Atiga, A. (1980). *The Impact of Oil on the Libyan Economy during (1965-1969),* Beirut: Lebanon: Al-Talia (in Arabic).

Awamleh, N. (2002). Public Officials' Attitudes towards Privatization in Jordan: A Field Study Survey, *The International Journal of Public Sector Management,* 15, pp.237-256.

Azam, P.J., Biais, B., & Dia, M. (2004). Privatization versus Regulation in Developing Economies: The Case Study of West African Banks, *Journal of African Economies*, 13, pp.361-394.

Banerjee, G., & Munger, C. (2004). Move to Markets? An Empirical Analysis of Privatization in Developing Countries, *Journal of International Development*, 16, pp.213-240.

Barberis, A., Shleifer, A., Boycko, M., & Tsukanova, N. (1995). How Does Privatization Work, Evidence from the Russian Shops, *Journal of Political Econmy*, 104, pp.1-29.

Bartlett, C., & Ghoshal, S. (1989). *Managing Across Borders: The Translational Solution*. Boston, MA: Harvard Business School Press.

Berg, A., & Berg, E. (1997). Methods of Privatization, *Journal of International Affairs*, 50, pp.357-390.

Biltamer, A. (2003). The Evaluation of the Libyan Workforce and its Ability to Find Instituted Sources to Compensate the Oil, Paper Presented at the *Conference on Economic Development in Libya: Past And Present*. Benghazi: Libya (in Arabic).

Bishop, M., & Kay, J. (1989). Privatization in The United Kingdom: Lessons from Experience, *Journal of World Development*, 17, pp.643-657.

Bishop, M., & Thompson, D. (1992). Regulatory Reform and Productivity Growth in the UK's Public Utilities, *Applied Economics*, 24, pp.1181-90.

Bishop, M., Kay, J., & Mayer, C. (1994) (Ed). *Privatization and Economic Performance.* Oxford University Press.

Black, J. (2002). *Dictionary of Economies.* United States, Oxford University Press.

Blair, M. (1995). *Ownership and Control, Rethinking Corporate Governance for the Twenty-First Century*, Brookings Institution Press.

Boardman, A., & Vining, A. (1989). Ownership and Performance in Competitive Environments: A Comparison of the performance of private, Mixed, and State-Owned Enterprises, *Journal of Law Economy,* 32, pp.1-33.

Borish, M., & Noel, M. (1996). *Private Sector Development during Transition.* World Bank, Discussion Paper 318.

Bos, D. (1991). *Privatization: A Theoretical Treatment.* Oxford University Press.

Bos, D., & Peters, W. (1991). Privatization of Public Enterprises: A Principal-Agent Approach, *Empirical - Austrian Economic Papers*, 18, pp.5-16.

Boubakri, N., & Cosset, J.C. (1998). The Financial and Operating Performance of Newly Privatized Firms: Evidence from Developing Countries, *Journal of Finance,* 53, pp.1081-1110.

Boubakri, N., Cosste, C.J., & Fischer, K. (2005). Privatization and Bank Performance in Developing Countries, *Journal of Banking and Finance*, 29, pp.2015-2041.

Boubakri, N., Cosste, C.J., & Guedhami, O, (2004). Privatization, Corporate Governance and Economic Environment: Firm-Level Evidence from Asia, *Journal of Pacific-Basin Finance*, 12, pp. 65-90.

Boutchkova, M.K., & Megginson, W.L. (2000). Privatization and the Rise of Global Capital Markets, *Financial Management*, 29, pp.31-76.

Boycko, M., Shleifer, A., & Vishny, W.R. (1996). A Theory of Privatization, *The Economic Journal*, 106, pp.309-319.

Bryman, A. (2001). *Social Research Methods*. Oxford: Oxford University Press.

Bryman, A. (2005). *Social Research Methods.* 2nd Ed. United States: Oxford University Press.

Buchanan, M., Tollison, R., & Tullock, G. (1980) (eds). *Toward a Theory of the Rent-Seeking Society.* College Station, Texas: A & M University Press.

Castanias, R., & Helfat, C. (1991). Managerial Resources and Rents, *Journal of Management,* 17. pp.155-171.

Caves, R., & Christensen, L. (1980). The Relative Efficiency of Public and Private Firms in a Competitive Environment: The Case of Canadian Railroads, *Journal of Political Economy*, 88, pp.958-976.

Central Bank of Libya (1995). Gross Domestic Product, Economic Bulletin, Vol.35.

Central Bank of Libya (1999). Annual Report by General Committee Apparatus of Popular Control for the year 1999, Tripoli: Libya.

Central Bank of Libya (2000). Annual Reports for the Years 1995-2000, Tripoli (in Arabic).

Central Bank of Libya (2001). Research and Statistics Department, Economic Bulletin, Second Quarter, Vol.41.

Chamia, A., Elfeturi, A., & Abusnena, M. (1997). *Role of Institutions and Financial Markets in Rebuilding the Structure of the Libyan Economy*. National Academy of Scientific Research, Benghazi: Libya (in Arabic).

Claessens, S., & Djankov, S. (2002). Privatization Benefits in Eastern Europe, *Journal of Public Economics*, 83, pp.307-324.

Claessens, S., Djankov, S., & Pohl, G. (1997). Determinants of Performance of Manufacturing Firms in Seven European Transition Economies. Available at: http://www.bus.umich.edu/KresgeLibrary/Collections/Workingpapers/wdi/wp74.pdf

Clifford, V.R. (1993). Implementing Privatization Policy in Developing Countries, A Publication of USAID's, Implementing Policy Change Project, Available at: www.usaid.gov/our_world/domocracy_and_governance/publications/ipc/wp-3-ms.pdf.

Cook, P., & Kirkpatrick, C. (1995). *Privatization Policy and Performance*. London, T.J. Press Ltd.

Cook, P., & Minogue, M. (1990). Waiting for Privatization in Developing Countries: Toward the Integration of Economic and Non-Economic Explanations, *Public Administration and Development*, 10, pp.389-403.

Cook, P., & Uchida, Y. (2003). Privatization and Economic Growth in Developing Countries, *Journal of Development Studies*, 6, pp.121-154.

Cook, P., Kirkpatrick, C., & Nixson, F. (1998) (Eds.). *Privatization, Enterprise Development and Economic Reform, Experience of Developing and Transitional Economies*. Cheltenham, Edward Elgar.

Court, A.T. (1939). Hedonic Price Indexes with Automotive Examples in Horner, S.L. (ed) *The Dynamics of Automobile Demand*. New York: General Motors Corp.

Cowling, K., & Cubbin, J. (1972). Hedonic Price Indexes for United Kingdom Cars, *The Economic Journal*, 82, pp.963-978.

Cullen, R.B., & Cushman, D.P. (2000). *Transitions to Competitive Government: Speed, Consensus, and Performance*. Albany: State University of New York.

Dahel, R., & Elhag, H. (1998). On the Methods of Privatization, Arab Planning Institute: Kuwait. Available at: www.arab-api.org/wps9804.pdf (in Arabic).

Dassoqi, R. (1995). *Privatization and Economic Reform in Developing* Countries, *with Reference to Egypt's Experience*. Cairo: Dar Al Nahda Al-Arabia (in Arabic).

Datta, D.K. (1991). Organizational Fit and Acquisition Performance: Effects of Post-Acquisition Integration, *Strategic Management Journal*, 12, pp.281-297.

Davies, D.J. (1971). The Efficiency of Public Versus Private Firms, The Case of Australia's two Airlines, *Journal of Law and Economics*, 14, pp.149-165.

De Alessi, L., (1980). The Economics of Property Rights: A Review of the Evidence, *Research in Law and Economics*, 2, pp.1– 47.

De Castro, J., & Uhlenbruck, K. (1997). Characteristics of Privatization: Evidence from Developed, Less-developed and Former Communist Countries, *Journal of International Business Studies*, 28, pp.123-143.

Debande, O., & Friebel, G. (2003). A Positive Theory of Give-Away Privatization, *International Journal of Industrial Organization,* 22, pp.1309-1325.

Demirguc-Kunt, A., & Levine, R. (1994). *The Financial System and Public Enterprise Reform*, Policy Research Working Paper 1319, Washington, The World Bank.

Denscombe, M. (2003). *The Good Research Guide for Small-Scale Social Research Projects.* Buckingham: Open University Press.

Donahue, J.D. (1989). *The Privatization Decision: Public Ends, Private Means.* New York: Basic Books.

Dowlah, C.A.F. (1998). Privatization Experience in Bangladesh, 1991-1996, Dacca, unpublished paper. *The World Bank.*

Earle, J., & Telegdy, A. (2001). Privatization and Productivity in Romanian Industry: Evidence from a Comprehensive Enterprise Panel, *IZA Discussion Paper No 326.*

Edwards, S. (1994). *Crises and Reform in Latin America: From Despair to Hope.* The World Bank, Oxford University Press.

Eisenhard, K.M. (1989). Agent Theory: An Assessment and Review, *Academy of Management Review*, 14, pp.57-74.

El-Afify, A. (2001). *Privatization in Egypt: Problems of Implementation.* Cairo: Madboli Library.

Elborgh-Woytek, K., & Lewis, M. (2002). Privatization in Ukraine: challenges of assessment and coverage in Fund conditionality, *Policy Discussion Paper*, IMF.

El-Fathaly, O. (1977). *The Social Economic and Historical Milieus*, Lexington, Massachusetts.

El-Fatoh, A (1997). Guide to Morocco's Privatization Programme, *Journal of Economic Cooperation among Islamic Countries*, 18, pp.61-106.

El-Naggar, S. (1989). *Privatization and Structural Adjustment in the Arab Countries*, Washington, USA, International Monetary Fund.

Estache, A., Gonzalez. M., & Trujillo, L. (2002). What Does "Privatization" Do for Efficiency? Evidence from Argentina's and Brazil's Railways, *Journal of World Development*, 30, pp.1885-1897.

Fadhel, A. (2004). *Privatization and its Impact on Development in Developing Countries.* Cairo: Madboli Library (in Arabic).

Faitouri, A. (2003). Privatization: A Goal or a Tool, Paper Presented at the *Conference on Economic Development in Libya: Past And Present*, Benghazi: Libya (in Arabic).

Fama, E., & Jensen, M. (1983). Separation of Ownership and Control, *Journal of Law and Economics*, 26, pp.301-325.

Farley, R. (1971). *Planning for Development in Libya, in the Exceptional Economy in the Developing World.* New York, Praeger Publishers.

Feigenbaum, B., & Henig, J. (1994). "The Political Underpinnings of Privatization: A Typology", *World Politics,* 46, pp.185-208.

Fellows, R., & Liu, A. (1997). *Research Methods for Construction.* Blackwell Science.

Frankfort-Nachmias, C., & Nachmias, D. (1992). *Research Methods in the Social Sciences.* 4th ed, New York: St. Martin's Press.

Frydman, R., Gray, C., & Rapaczynski, A (1999). When Does Privatization Work? The Impact of Private Ownership on Corporate Performance in the Transition Economies, *Quarterly Journal of Economics,* 114, pp.1153-1191.

Furuboth, E., & Pejovich, S. (1972). Property Rights and Economic Theory: A Survey of Recent Literature, *Journal of Economic Literature*, 10, pp.1137-1162.

General People's Committee (1987). *Law No. 113 of 1987* (Official Document Issued by the Government).

General People's Committee (1992). *Law No. 9 of 1992* (Official Document Issued by the Government).

General People's Committee (2003). *Law No. 100 of 2003* (Official Document Issued by the Government).

General People's Committee for People's Control and Follow up, *General Annual Report*, Submitted to the Basic People's Conference in their 2nd Ordinary Session for 1990, Tripoli: Libya.

General People's Committee for Planning, Socio-Economic Transformation Plan 1981-1985, *Part One*, pp.63-64, Tripoli: Libya.

General People's Committees for People's control and follow up, *General Annual Report*, Submitted to the Basic People's Conference in their 2nd Ordinary Session for 1990, Tripoli: Libya.

Griliches, Z. (1971) (Ed). *Price Indexes and Quality Change*. Harvard University Press.

Guislain, P. (1997). *The Privatization Challenge, A Strategic, Legal and Institutional Analysis of International Experience*, Washington, DC, World Bank.

Gupta, N. (2005). Partial Privatization and Firm Performance, *Journal of Finance*, 60, pp.987-1015.

Habib, H. (1979). *Libya: Past and Present,* Valletta, Malta, Edam Publishing House, Ltd.

Haggerty, L., & Shirley, M. (1997). "A New Database on State-Owned Enterprises", *The World Bank Economic Review.*

Haitem, S. (1994). *The International Experience in Privatization,* Cairo: Dar Alalem Publisher (in Arabic).

Hall, D., Lobina, E., & Motte, R. (2005). Public Resistance to Privatization in Water and Energy, *Development in Practise*, 15, pp.286-301.

Hanke, S. (1987) (Ed.). *Privatization and Development*. San Francisco: Institute for Contemporary Studies Press.

Hasanin, M. (1993). *Arab Policy towards Privatization*. Dar Souad: Kuwait (in Arabic).

Hasea, M. (1989). *Role of Money in the Libyan Economy.* The Public Company for Advertisement and Distribution, Libya (in Arabic).

Hatem, S. (1994). The International Experience in Privatization. Dar Al-Tebaa: Cairo (in Arabic).

Hawadana, B. (2003). Characteristics of the Libyan Industrial Sector, Paper Presented at the *Conference on Economic Development in Libya: Past and Present*, Benghazi: Libya (in Arabic).

Hegstad, S.O., & Newport, T. (1987). *Management Contracts: Main Features and Issues*, The World Bank, Technical Paper No 65, Washington, D.C.

Heller, P., & Schiller, C. (1989). The Fiscal Impact of Privatization, with Some Examples from Arab Countries, *Journal of World Development,* 17, pp.757-767.

Hidano, N. (2002). *The Economic Valuation of the Environment and Public Policy: A Hedonic Approach*. Cheltenham, Edward Elgar Publishing Limited.

Higgins, B. (1953). *The Economic and Social Development of Libya*. New York, United Nations.

Higgins, B. (1968). *Economic Development*. New York, Norton.

Hitt, M., Johnson, R., & Mossel, D. (1996). The Market for Corporate Control, and Firm Innovation, *Academy of Management Journal,* 39, pp.1084-1119.

Holmstrom, B., & Tirole, J (1993). Market Liquidity and Performance Monitoring, *Journal of Political Economy*, 101, pp.678-709.

Hoskisson, R., Eden, L., Lau, C., & Wright, M. (2000). Strategy in Emerging Economies, *Academy of Management Journal,* 43, pp.249-267.

Hryan, B. (1998). *Privatization and the Public Sector.* Oxford, Heinemann.

Huntington, S. (1968). *Political Order in Changing Societies*. Yale University Press.

Hurl, B. (1995). *Privatization and the Public sector*, Heinemann, England.

Hyclak, T., & King, A. (1994). The Privatization Experience in Eastern Europe, *The World Economy*, 17, pp.529-550.

Jelic, R., Briston, R., & Avssenegg, W. (2003). The Choice of Privatization Method and Financial Performance of Newly Privatized Economies in Transition Economies, *Journal of Business Finance and Accounting*, 30, pp.306-686.

Jerome, A., & Ariyo, A. (1999). Privatization in Africa: An Appraisal, *Journal of World Development,* 27, pp.201-213.

Karatas, C. (2001). Privatization in Turkey: Implementation, Politics of Privatization and Performance Results, *Journal of International Development,* 13, pp.93-121.

Kessides, C. (1993). *Institutional Options for the Provision of Infrastructure.* The World Bank, Discussion Paper No 212.

Khader, B., & El-Wifati, B. (1987). *The Economic Development of Libya*. London: Croom Helm.

Kikeri, S., & Nellis, J. (2004). An Assessment of Privatization, *The World Bank Research Observer,* 19, pp. 87-118.

Kikeri, S., Nellis, J., & Shirley, M. (1994). Privatization: Lessons from Market Economies, *The World Bank Research Observer,* 9, pp.241-72.

Killick, T., & Commander, S. (1988). State Divestiture as a Policy Instrument in Developing Countries. *Journal of World Development,* 16, pp.1465-1479.

Krueger, A. (1993). *Political Economy of Policy Reform in Developing Countries.* Cambridge, MIT Press.

La Porta, R., & Silanes, L.D. (1999). The Benefits of Privatization: Evidence from Mexico, *Quarterly Journal of Economics,* 54, pp.1193-1242.

La Porta, R., Lopez-De-Slianes, F., & Shieifer, A. (2002). Government Ownership of Banks, *Journal of Finance*, 57, pp.89-109.

Laffont, J., & Jirole, T. (1993). *A Theory of Incentives in Procurement and Regulation.* Cambridge, The MIT Press.

Lebas, M.J. (1995). Performance Measurement and Performance Management, *International Journal of Production Economics,* 41, pp.23-35.

Levine, R. (1997). Financial Development and Economic Growth: Views and Agendas, *Journal of Economic Literature*, 35, pp.688-726.

Libya Arab Jamahiriya, General People's Committee of Planning, *Socio-Economic Indicators 1962-1996*, October 1998 (in Arabic).

Lieberman, Ira W., Ewing, A., Mejstric, M., Mukherjee, J & Fidler, P. (1995). *Mass Privatization in Central and Eastern Europe and the Former Soviet Union*: A Comparative Analysis. The World Bank, Washington, DC.

Littlechild, S. (1994). Competition, Monopoly and Regulation in the Electricity Industry, In Einhorn, M.A. (Ed.): *From Regulation to Competition*: New Frontiers in Electricity Markets. Boston, Mass.: Kluwer Academic, pp.125-149.

Lopez-Calva, L.F. (1998). *On Privatization Methods,* Development Discussion Paper No. 665, Central America Project Series, Harvard University.

Lopez-de, S. (1997). Determinants of Privatization Prices, *Quarterly Journal of Economics,* 112, pp.965-1025.

Martimort, D., & Straub, S. (2005). The Political Economy of Private Participation, Social Discontent and Regulatory Governance. Available at: www.mdb-egp.net/sds/conferences/infrastructure/WB-IDB-papers-Martimort&Straub.pdf.

Mauro, P. (1995). Corruption and Growth, *the Quarterly Journal of Economics*, 110, pp.681-712.

Mckean, R. (1972). Property Rights within Government, and Devices to Increase Government Efficiency, *Southern Economic Journal,* 39, pp.177-86.

Megginson, W.L. (2005). The Economic of Privatization, *Journal of Banking and Finance*, 29, pp.1931-1980.

Megginson, W.L., & Netter, M.J. (2001). From State to Market: A Survey of Empirical Studies on Privatization, *Journal of Economic Literature*, 39, pp.321-389.

Megginson, W.L., Nash., C.R., & Van Randenborgh, M. (1994). The Financial and Operating Performance of Newly Privatized Firms: An International Empirical Analysis, *Journal of Finance,* 49, pp.403-452.

Ministry of Planning, *Five Year Economic and Social Transformation Plan (1976-1980):* Tripoli (in Arabic).

Ministry of Planning, *Five Year Economic and Social Transformation Plan (1981-1985):* Tripoli (in Arabic).

Ministry of Planning, *Three Year Development Plan (1973-1975):* Tripoli (in Arabic).

Ministry of Petroleum Affairs (1972). Libyan Arab Republic.

Mirza, A. (1995). Economic Performance, Development Policies and Privatization in the Arab World, Paper Presented at *a seminar on Economic Performance, Development Policies*, Tripoli-Libya (in Arabic).

Mirza, A. (1998). Economic and Social Trends in Libya (1985-1996), *Paper Presented at a Seminar on Economic Performance, Development Policies*, Tripoli-Libya (in Arabic).

Mohr, J., & Spekman, R. (1994). Characteristics of Partnership Success: Partnership Attributes, Communication Behaviour and Conflict Resolution techniques, *Strategic Management Journal*, 15, pp.135-152.

Molz, R. (1990). "Privatization in Developing Countries", *Columbia Journal of World Business,* pp.17-24.

Munger, M., & Banerjee, S. (2004). Move to Markets? An Empirical Analysis of Privatization in Developing Countries, *Journal of International Development,* 16, pp.213-240.

Nankani, H. (1988). *Techniques of Privatization of State Owned Enterprises: Selected Case Studies*. World Bank Technical Paper No. 89, Washington, the World Bank.

Nankani, H. (1990). Lessons of Privatization in Developing Countries, *Finance and Development,* 27, pp. 43-45.

National Authority for Information and Documentation (1994), *Economic and Social Indictors*, Yearly Statistical Series (1962-1996), Tripoli (in Arabic).

Nellis, J., & Kikeri, S. (1989). Public Enterprises Reform: Privatization and the World Bank, *Journal of World Development,* 17, pp.659-672.

Nellis, J. (1998). Privatization in Transition Economy: Update, In H.G.Brodman (ed), *Case-By-Case Privatization in Russian Federation: Lessons from International Experience*. World Bank Discussion Paper No 35, Washington, The World Bank.

Nellis, J. (1999). Time to Rethink Privatization in Transition Economies? The World Bank, Discussion Paper No.38. Available at:
http://ifcln1.ifc.org/ifcext/economics.nsf/AttachmentsByTitle/dp38/$FILE/dp38.pdf.

Niskanen, W. (1971). *Bureaucracy and Representative Government*, Chicago, Aldine Publishing Company.

Obeidi, A. (2001). *Political Culture in Libya*. Padstow, Cornwall, TJ International.

Omran, M. (2004). The Performance of State-Owned Enterprises and Newly Firms: Does Privatization Really Matter? *Journal of World Development*, 32, pp.1019-1041.

Pallant, J. (2005). *SPSS Survival Manual: A Step by Step Guide to Data Analysis Using SPSS for Windows*. 2nd Ed, Maidenhead, Open University Press.

Park, S., & Russo, M (1996). When Competition Eclipses Cooperation: An Event History Analysis of Joint Venture Failure, *Journal of Management Science*, 42, pp.875-890.

Parker, D. (1999). The Performance of BAA before and after Privatization, *Journal of Transport Economics and Policy*, 33, pp.133-46.

Parker, D., & Hartley, K. (1991). Do Changes in Organizational Status Affect Financial Performance? *Journal of Strategic Management,* 12, pp.133-36.

Pfeffer, J. (1994). *Competitive Advantages through People.* Boston, Mass: Harvard Business School Press.

Pivovarsky, V. (2001). *How Does Privatization Work? Ownership Concentration in Enterprise Performance in Ukraine*. IMF Working Paper.

Ramamurti, R. (1997). Testing the Limits of Privatization: Argentine Railroads, *The Journal of World Development*, 25, pp.1973-93.

Ramanadham, V. (1991). *The Economic of Public Enterprise.* North Yorkshire: Filey.

Ramanadham, V. (1993). (Ed.) *Privatization a Global Perspective.* London: WitWell.

Roger, N. (1999). Recent Trends in Private Participation in Infrastructure. Available at: http://www.transport-americas.org/RecentTrendsPPI.pdf.

Roland, G., & Sekkat, K. (2000). Managerial Career Concerns, Privatization and Restructuring in Transition Economies, *European Economic Review,* 44, pp.1857-1872.

Rondinelli, D., & Iacono, M. (1996). Strategic Management of Privatization, A Framework for Planning and Implementation, *Public Administration and Development*, 16, pp.247-263.

Rondinelli, D., & Black, S. (2000). Multinational Strategic Alliances and Acquisitions in Central and Eastern Europe: Partnerships in Privatization, *Academy of Management Executive*, 14, pp.85-98.

Rondinelli, D., & Kasarda, J. (1993). Privatization of Urban Services and Infrastructure in Developing Countries, in Kasarda, J., & Parnell, A. (eds) *Third World Cities, Problems, Policies and Prospects* Sage Publications.

Rosman, A.L., Lubatkin, M., & O neill, H. (1994). Rigidity in Decision Behaviours: A within Subject Test of Information Acquisition Using Strategic and Financial Informational Cues, *Academy of Management Journal,* 37, pp.1017-1033.

Rossman, G., B & Wilson, B.L (1991). Number and Words Revisited: Being "Shamelessly Eclectic". *Evaluation Review*, 9, pp.627-643.

Sader, F. (1995). *Privatizing Public Enterprises and Foreign Investment in Developing Countries, 1988-1993*. Foreign Investment Advisory Service Occasional Paper No 5, The World Bank.

Sadq, A. (1995). *Privatization: Issues and Implications in Arabic Countries*, Abu Dhabi: Arabic Monetary Fund (in Arabic).

Sanford, G. (2005). Poland Economy, Available at:
http://encarta.msn.com/text_761559758_27/Poland.html.

Sappington, D.E., & Stiglitz, J.E. (1987). Privatization, Information and Incentives, *Journal of Policy Analysis and Management,* 6, pp.567-82.

Saunders, N.K., Lewis, P., & Thornhill, A. (2000). *Research Methods for Business Students*, 2rd Ed, Harlow: Financial Times Prentice Hall.

Savas, E.S. (1987). *Privatization: The Key to Better Government*. Chatham, NJ: Chatham House Publishers.

Saxton, T. (1997). The Effects of Partner and Relationship Characteristics on Alliance Outcomes, *Academy of Management Journal*, 40, pp.443-461.

Schmitz, J.A. (1996). The Role Played By Public Enterprises: How Much Does it Differ Across Countries? *Federal Reserve Bank of Minneapolis Quarterly Review,* 20, pp.2-15.

Shapiro, C., & Willig, R. (1990). Economic Rationales for the Scope of Privatization, in Suleiman & Waterbury (Eds.), *The Political Economy of Privatization and Deregulation*, The Westview Press.

Sheshinski, E., & Lopez-Calva, F.L. (1998). Privatization and Its benefits: Theory and Evidence. Available at:
http://pppue.undp.org/indexAction.cfm?module=Library&action=GetFile&DocumentID=51

Shirley, M., & Nellis, J. (1991). Public *Enterprises Reform: The Lesson of Experience*. Washington D.C: The World Bank.

Shleifer, A. (1998). State Versus Private Ownership, *Journal of Economic Perspectives,* 12, pp.133-150.

Shleifer, A., & Vishny, R.W. (1993). Corruption, *Quarterly Journal of Economics*, 108, pp.599-617.

Shleifer, A., & Vishny, R.W. (1994). Politicians and Firms, *Quarterly Journal of Economics,* 109, pp.995-1025.

Simon, H. (1991). Organization and Markets, *Journal of Economic Perspectives,* 5, pp.25-44.

Simon, H. (1996). *The Sciences of the Artificial.* 3rd Ed. Cambridge: The MIT Press.

Smith, A. (1976). *An Inquiry into the Nature and Causes of the Wealth of Nations. Oxford,* Oxford University Press (Org, Publ.1776).

Stiglitz, J. (2002). *Globalization and Its Discontents*. London, Allen Lane.

Strong, N., & Waterson, M. (1987). Principals, Agents and Information in Clarke, R. & McGuiness, T. (eds.), *The Economics of the Firm*. Oxford: Blackwell.

Swann, P., & Taghavi, M. (1992). *Measuring Price and Quality Competitiveness "A study of Eighteen British Product Markets"*. Athenaeum Press Ltd.

Thompson, D.J., & Kay, J.A. (1986). Privatization: A Policy in Search of a Rationale, *The Economic Journal*, 96, pp.18-32.

Tybout, J.R. (2000). Manufacturing Firms in Developing Countries: How Well Do They Do, and Why? *Journal of Economic Literature,* 38, pp.11-44.

Van De Walle, N. (1989). Privatization in Developing Countries: A Review of the Issues, *Journal of World Development*, 17, pp.601-615.

Van De Walle, N. (1994). Political Liberalization and Economic Policy Reform in Africa, *Journal of World Development*, 22, pp.483-500.

Vandewalle, D. (1998). *Libya Since Independence*. Ithaca: Cornell University Press.

Vickers, J., & Yarrow, G. (1991). Economic Perspectives on Privatization, *Journal of Economic Perspectives*, 5, pp.111-132.

Vickers, J., & Yarrow, J. (1988). *Privatization: an Economic Analysis.* London: MIT Press.

Viravan, A (1991). Privatization: Financial Choice and Opportunity, Occasional Paper No. 31, *International Centre for Economic Growth.*

Vuylsteke, C. (1988). *Techniques of Privatization of State-Owned Enterprises: Methods and Implementation.* Technical Paper No 88, The World Bank.

Walle, N. (1989). Privatization in Developing Countries: A Review of the Issues, *Journal of World Development*, 17, pp.601-615.

Walsh, J.P., & Seward, J.K. (1990). On the Efficiency of Internal and External Corporate Control Mechanisms, *Academy of Management Journal*, 8, pp.933-45.

World Bank (1995). *Privatization Principles and Practice*. Washington, D.C The World Bank and International Finance Corporation.

World Bank (1996). *World Debt Tables: External Finance for Developing Countries*, Vol. 11, Analysis and Summary Tables.

Yarrow, G. (1986). Privatization in Theory and Practice, *Economic Policy*, 2, pp.224-377.

Yin, R.K. (1994). *Case Study Research Design and Methods*, 2nd Ed. London, Sage Publications.

Appendix (1)

Questionnaire for Managers

Study on Privatization and its Future Implications in Libya:
A Case Study on the Libyan National Textile Company

Dear Sir / Madam

This questionnaire is part of doctorate research on privatization in the Libyan textiles sector. In part fulfilment of this programme, I am required to submit a thesis, and have chosen as a topic "p*rivatization and its future implications in Libya*". The main purposes of my research are to investigate problems faced by the privatization process in the ex-national textiles company in Libya and to identify changes that have taken place in the period after the privatization programme. This will assist in identifying the economic indicators (both internal and external) which influence the process of privatization.

Your participation is very important to the success of this study and will be greatly appreciated. Any reply or comments you make will be dealt with in strict confidence and anonymity is assured.

Yours sincerely,

Saleh M. Abdussalam
PhD Student
Economics Division
Newcastle Business School
Northumbria University

(A). General Information on Managers

Q.1. Your position in this factory: ______________________

Q.2. Your educational level: (Please circle the appropriate answer)

A. Little formal education	□	E. Intermediate diploma	
B. Elementary	□	F. University degree	□
C. Basic education	□	G. Masters	□
D. Secondary education	□	H. Doctorate	□

Q.3. Were you a manager of this factory before privatization?

(Please circle the appropriate answer). **Yes / No**

Q.4. Number of years working at the factory (   ) years

(B). General Information on Your Factory

Q.5. Name of factory: ______________________

Q.6. Location: ______________________

Q.7. Type of product: ______________________

Q.8. Starting date of actual production: ______________________

Q.9. Date of ownership transfer: ______________________

Q.10. Annual target capacity: ______________________

Q.11. Current size of the workforce: ______________________

Q.12. The actual (or approximate) size of workforce (before and after the privatization process):

Years	1984	1985	1986	1987	1988	1989	1990	1991
Number of employees								

Q.13. Type of factory ownership

A. Totally owned by employees □

B. Jointly owned by employees and government □

C. Jointly owned by employees and private sector □

(C) Managers Attitudes towards Privatization

Q.14. Were you in favour of transferring your factory from the public to the private sector? (Please circle the appropriate answer). **Yes / No**

If **Yes**, please go to Q. **(15)**

If **No**, please go to Q. **(16)**

Q.15. Please indicate the degree to which you **Agree** or **Disagree** with the following statements, relating to the possible outcomes of privatization, concerning why you favoured privatization?

Statements	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
A. You would get a higher salary.	☐	☐	☐	☐	☐
B. You would get the recognition you deserve when you do a good job	☐	☐	☐	☐	☐
C. You would have better physical working conditions	☐	☐	☐	☐	☐

Q16. Please indicate the degree to which you **Agree** or **Disagree** with the following statements:

Statements	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
A. You feared that production would not continue	☐	☐	☐	☐	☐
B. You feared that the capital of your factory would not be enough	☐	☐	☐	☐	☐
C. You feared for the future of your job	☐	☐	☐	☐	☐

Please continue with section (D)

(D) To what extent have the objectives of privatization been achieved?

Thinking about the situation **post-privatization**, please indicate the degree to which you **Agree** or **Disagree** with the following statements:

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Q.17. There has been an increase in production quantity	☐	☐	☐	☐	☐
Q.18. There has been a significant increase in capital investment spending	☐	☐	☐	☐	☐
Q.19. There has been a reduction in the unit costs of production	☐	☐	☐	☐	☐
Q.20. There has been an upgrading in the level of technology used	☐	☐	☐	☐	☐
Q.21. There has been an upgrading in methods of production	☐	☐	☐	☐	☐
Q.22. There has been an increase in labour productivity in your factory	☐	☐	☐	☐	☐
Q.23. There has been an increase in the sales of products of your factory	☐	☐	☐	☐	☐
Q.24. There has been a significant increase in profitability of your factory	☐	☐	☐	☐	☐
Q.25. There has been an increase in the number of employees of your factory	☐	☐	☐	☐	☐
Q.26. There has been an increase in your salary	☐	☐	☐	☐	☐
Q.27. There has been an increase in the capital of your factory	☐	☐	☐	☐	☐
Q.28. There has been better accuracy in getting information	☐	☐	☐	☐	☐
Q.29. There has been effective decision making	☐	☐	☐	☐	☐
Q.30. There has been more effective observation and supervision of employees	☐	☐	☐	☐	☐
Q.31. There have been new marketing policies	☐	☐	☐	☐	☐

(E). Obstacles to and constraints of the privatization programme

In the following table there are several external factors which might influence the success of privatization programmes. Please answer these questions by choosing the choice that you think best reflects your opinion:

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Q.32. There are no clear monetary policies in relation to the exchange rate policy	☐	☐	☐	☐	☐
Q.33. There is poor infrastructure, such as electricity, telecoms, airports, ports, water distribution, natural gas distribution, and toll-roads.	☐	☐	☐	☐	☐
Q.34. There is no domestic stock market	☐	☐	☐	☐	☐
Q.35. There are high rates of taxes and tariffs	☐	☐	☐	☐	☐
Q.36. There is much disorganization and corruption	☐	☐	☐	☐	☐
Q.37. There is excessive regulation and bureaucracy	☐	☐	☐	☐	☐
Q.38. There is no legal transparency	☐	☐	☐	☐	☐
Q.39. There is a shortage of data and information	☐	☐	☐	☐	☐
Q.40. There is limited access to loans and credit facilities	☐	☐	☐	☐	☐
Q.41. There is a lack of discussion on the subject of privatization	☐	☐	☐	☐	☐
Q.42. There is a shortage in skills within the workforce	☐	☐	☐	☐	☐
Q.43. There is strong competition from abroad facing your factory's production	☐	☐	☐	☐	☐
Q.44. There is strong domestic competition facing your factory's production	☐	☐	☐	☐	☐
Q.45. There are no governmental subsidies for your factory	☐	☐	☐	☐	☐
Q.46. There are political/economic risks	☐	☐	☐	☐	☐

Thank you for your time and cooperation in completing this questionnaire

Appendix (2)

Questionnaire for Employees

Study on Privatization and its Future Implications in Libya: A Case Study of the Libyan National Textiles Company

Dear Sir / Madam

This questionnaire is part of doctorate research on privatization in the Libyan textiles sector. In part fulfilment of this programme, I am required to submit a thesis, and have chosen as a topic *"privatization and its future implications in Libya"*. The main purposes of my research are to investigate problems faced by the privatization process in the ex-national textiles company in Libya and to identify changes that have taken place in the period after the privatization programme. This will assist in identifying the economic indicators (both internal and external) which influence the process of privatization.

Your participation is very important to the success of this study and will be greatly appreciated. Any reply or comments you make will be dealt with in strict confidence and anonymity is assured.

Yours sincerely,

Saleh M. Abdussalam
PhD Student
Economics Division
Newcastle Business School
University of Northumbria at Newcastle

(A). General information on employees:

Q1. Your position in this factory: ________________________________

Q2. Educational level: (Please circle the appropriate answer)

A. Little formal Education	□	F. Diploma	□
B. Elementary	□	G. University degree	□
C. Basic education	□	H. Masters	□
D. Secondary education	□	I. Doctorate	□
E. Intermediate	□		

Q3. Number of years working at the factory (   ) years

(B). Workforce attitudes towards privatization:

Q4. Were you in favour of transferring your factory from the public to the private sector? (Please circle the appropriate answer). **Yes / No**

If **Yes**, please go to question **(5)**

If **No**, please go to question **(6)**

Q5. Please indicate the degree to which you **Agree** or **Disagree** with the following statements, relating to the possible outcomes of privatization, concerning why you favoured privatization?

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
A. You would get a higher salary.	☐	☐	☐	☐	☐
B. You would get the recognition you deserve when you do a good job	☐	☐	☐	☐	☐
C. You would have better physical working conditions	☐	☐	☐	☐	☐

Q6. Please indicate the degree to which you **Agree** or **Disagree** with the following statements:

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
A. You feared that production would not continue	☐	☐	☐	☐	☐
B. You feared that the capital of your factory would not be enough to fund	☐	☐	☐	☐	☐
C. You feared for the future of your job	☐	☐	☐	☐	☐

Please continue with section (c)

(C). Privatization and its effects on the workforce:

Thinking about the situation **post-privatization**, please indicate the degree to which you **Agree** or **Disagree** with the following statements:

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Q7. There have been substantial improvements in your work environment	☐	☐	☐	☐	☐
Q8. There has been an increase in your salary	☐	☐	☐	☐	☐
Q9. There have been incentives provided	☐	☐	☐	☐	☐
Q10. There has been an improvement in health and safety at work	☐	☐	☐	☐	☐
Q11. You have more motivation to work	☐	☐	☐	☐	☐

Thank you for your time and cooperation in completing this questionnaire

Appendix (3)

Questionnaire for Businessmen

Study on Privatization and its Future Implications in Libya
A Case Study of the Libyan National Textile Company

Dear Sir / Madam

This questionnaire is part of doctorate research on privatization in the Libyan textiles sector. In part fulfilment of this programme, I am required to submit a thesis, and have chosen as a topic *"privatization and its future implications in Libya"*. The main purposes of my research are to investigate problems faced by the privatization process in the ex-national textiles company in Libya and to identify changes that have taken place in the period after the privatization programme. This will assist in identifying the economic indicators (both internal and external) which influence the process of privatization.

Your participation is very important to the success of this study and will be greatly appreciated. Any reply or comments you make will be dealt with in strict confidence and anonymity is assured.

Yours sincerely,

Saleh M. Abdussalam
PhD Student
Economics Division
Newcastle Business School
University of Northumbria at Newcastle

(A). General Information

Q.1. Your position in this factory: ______________________

Q.2. Name of factory: ______________________

Q.3. Location: ______________________

Q.4. Type of product: ______________________

Q.5. Starting date of actual production: ______________________

(B) To what extent have the objectives of privatization been achieved?

Please indicate the degree to which you **Agree** or **Disagree** with the following statements:

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Q.6. There has been an increase in production quantity	☐	☐	☐	☐	☐
Q.7. There has been a significant increase in capital investment spending	☐	☐	☐	☐	☐
Q.8. There has been a reduction in the unit costs of production	☐	☐	☐	☐	☐
Q.9. There has been an upgrading in the level of technology used	☐	☐	☐	☐	☐
Q.10. There has been an upgrading in methods of production	☐	☐	☐	☐	☐
Q.11. There has been an increase in labour productivity in your factory	☐	☐	☐	☐	☐
Q.12. There has been an increase in the sales of products of your factory	☐	☐	☐	☐	☐
Q.13. There has been a significant increase in profitability of your factory	☐	☐	☐	☐	☐
Q.14. There has been an increase in the number of employees of your factory	☐	☐	☐	☐	☐
Q.15. There has been an increase in your salary	☐	☐	☐	☐	☐
Q.16. There has been an increase in the capital of your factory	☐	☐	☐	☐	☐
Q.17. There has been better accuracy in getting information	☐	☐	☐	☐	☐
Q.18. There has been effective decision making	☐	☐	☐	☐	☐
Q.19. There has been more effective observation and supervision of employees	☐	☐	☐	☐	☐
Q.20. There have been new marketing policies	☐	☐	☐	☐	☐

(C). Obstacles to and constraints of the privatization programme
In the following table there are several external factors which might influence the success of privatization programmes. Please answer these questions by choosing the choice that you think best reflects your opinion:

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Q.21. There are no clear monetary policies in relation to the exchange rate policy	☐	☐	☐	☐	☐
Q.22. There is poor infrastructure, such as electricity, telecoms, airports, ports, water distribution, natural gas distribution, and toll-roads.	☐	☐	☐	☐	☐
Q.23. There is no domestic stock market	☐	☐	☐	☐	☐
Q.24. There are high rates of taxes and tariffs	☐	☐	☐	☐	☐
Q.25. There is much disorganization and corruption	☐	☐	☐	☐	☐
Q.26. There is excessive regulation and bureaucracy	☐	☐	☐	☐	☐
Q.27. There is no legal transparency	☐	☐	☐	☐	☐
Q.28. There is a shortage of data and information	☐	☐	☐	☐	☐
Q.29. There is limited access to loans and credit facilities	☐	☐	☐	☐	☐
Q.30. There is a lack of discussion on the subject of privatization	☐	☐	☐	☐	☐
Q.31. There is a shortage in skills within the workforce	☐	☐	☐	☐	☐
Q.32. There is strong competition from abroad facing your factory's production	☐	☐	☐	☐	☐
Q.33. There is strong domestic competition facing your factory's production	☐	☐	☐	☐	☐
Q.34. There are no governmental subsidies for your factory	☐	☐	☐	☐	☐
Q.35. There are political/economic risks	☐	☐	☐	☐	☐

Thank you for your time and cooperation in completing this questionnaire

Appendix (4)

INTERVIEW QUESTIONS

RESEARCH TOPIC:

PRIVATIZATION AND ITS FUTURE IMPLICATIONS IN LIBYA:

A CASE STUDY OF THE LIBYAN NATIONAL TEXTILE COMPANY

1. **What is the main role of the General Board of Ownership towards privatization in Libya?**

....

....

....

2. **What is the main purpose of the state in privatizing some companies and public institutions?**

....

....

....

3. **What are the main policies and procedures that you have followed in the transformation towards privatization?**

....

....

....

4. Are any particular criteria used in choosing companies or public institutes for privatization? If yes, please mention these?

....

....

....

5. **Have you conducted or will you conduct any feasibility study of the companies and institutions subject to privatization?**

....

....

....

6. **Have you established any contacts with some Arab countries to benefit from their expertise in the field of privatization? If yes, please, mention the names of the countries, and the type of benefits gained?**

....

....

....

7. **Is any guidance given to the workforces in companies and institutions subject to privatization? If your answer is yes please describe the guidance given?**

....

....

....

8. **What is your estimation of the Libyan privatization model that was applied to the Libyan National Textiles Company in 1988, and do you assess this experiment as a success or failure? Could you benefit from this experiment?**

....

....

....

9. **What techniques have you adopted or will you adopt to support local and foreign investors involved in buying the shares of companies and institutions open for underwriting?**

....

....

....

10. **Can you estimate any time span for Libya to achieve a successful privatization programme?**

....

....

....

11. **What is the role of the state in the next stage of privatization?**

....

....

....

12. In the space below, please, indicate or mention any information, suggestions or opinions that you think will help this Study.

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

THANK YOU FOR YOUR TIME AND COOPERATION

Appendix (5)

Law No. 5 for the Year 1997 Concerning

Encouragement of Foreign Capitals Investment

Article (1)

The aim of this law is to attract investment of foreign capital in investment projects within the framework of the general policy of the State and of the objectives of economical and social development and in particular:

- Transfer of modern technology.
- Training the Libyan technical personnel.
- Diversification of income resources.
- Contribution to the development of the national products so as to help in their entry into the international markets.
- Realization of a local development.

Article (2)

This law shall apply to the investment of the foreign capital held by Libyans and the nationals of Arab and Foreign States in investment projects.

Article (3)

In the application of this law, unless the context otherwise requires, the following words and phrases shall have the meanings assigned opposite each:

1. Jamahyria means The Great Socialist People's Libyan Arab Jamahyria.
2. The law means the law of Foreign Capitals Investment Encouragement.

3. The Secretary means The Secretary of the General People's Committee for Planning, Economy and Commerce.
4. Authority means Libyan Foreign Investment Board.
5. The Executive Regulation means the regulation issued for the implementation of the provisions of this law.
6. The Foreign Capital means the total financial value brought into the Great Jamahyria whether owned by Libyans or foreigners in order to undertake an investment activity.
7. Project means any economic enterprise established in accordance with this law the result of its work is the production of goods for end or intermediate consumption, or investment goods, or the export or provision of service, or any other enterprise approved as such by the General People's Committee.
8. Investor means any natural or juridical entity national or non-national, investing in accordance with the provisions of this law.

Article (4)

This law regulates the investment of foreign capital brought into the Jamahiriya in any of the following forms:

- Convertible foreign currencies or substitutes thereof brought through official banking methods.
- Machinery, equipment, tools, spare parts and the raw materials needed for the investment project.
- Transport means that are not locally available.
- Intangible rights; such as patents, licenses, trade marks and commercial names needed for the investment project or operation thereof.

- Reinvested part of the profits and returns of the project.

The Executive Regulation shall regulate the manner for the evaluation of the in kind portions used in the formation of the capital designated for investment in Libya.

Article (5)

There shall be established an Authority to be known as "Libyan Foreign Investment Board" having its own independent juridical personality, under the jurisdiction of the General People's committee for Planning, Economy and Commerce. The Authority shall be established by a decision from the General People's Committee upon a proposition by the Secretary stating the Authority's legal domicile, its secretary and members of its management committee.

The Executive Regulation shall regulate the meetings of the Authority and the administrative procedures required for establishing the project.

Article (6)

The Authority shall work for the encouragement of foreign capitals investment and promotion for the investment projects by various means; in particular it shall:

1. Study and propose plans to organize foreign investment and supervise foreign investments in the country.
2. Receive the applications for foreign capital investments to determine whether they satisfy the legal requirements and the feasibility study for the project and then submit its recommendations to the Secretary accordingly.

3. Gather and publish information and conduct economic studies relevant to the potentials of investments in the projects that contribute to the economic development of the country.

4. Take proper actions to attract foreign capitals and promote the chances of investment through various means.

5. Recommend exemptions, facilities or other benefits for the projects that are considered important for the development of the national economy, or recommend the renewal of the exemptions and benefits as provided for in the law for further periods of time. It shall submit its recommendations to the relevant authority.

6. Consider without prejudice to the right of the investor to petition and litigate complains petitions or disputes lodged by the investors resulting from the application of this law.

7. Study and review periodically the investment legislations, propose improvement thereof and submit same to the concerned authority.

8. Perform any other functions assigned to it by the General People's Committee.

Article (7)

The project is required to realize all or some of the following:

- Production of goods for export or contribution to the increase of export of such goods or substitute imports of goods in total or in part.

- Make available positions of employment for Libyan manpower, train and enable some to gain technical experience and know–how. The Executive Regulation shall set the conditions and terms of employment of Libyan manpower.

- Use of modern technology or a trade mark or technical expertise.

- Provision of a service needed by the national economy or contribute to the enhancement or development of such service.

- Strengthen the bonds and integration of the existing economic activities and projects or reduce the cost of production or contribute in making available materials and supplies for their operations.

- Make use or help in making use of local raw materials.

- Contribute to the growth and development of the remote or underdeveloped areas.

Article (8)

Investment is permissible in those areas: Industry; health; tourism; services; agriculture; and any other area determined by a decision from the General People's Committee according to a proposal from the Secretary.

Article (9)

The permit for foreign capital investments shall be granted by the Authority after the issuance of the Secretary's decision approving the investment.

Article (10)

Projects established within the framework of this law shall enjoy the following benefits:

A) An exemption for machinery, tools and equipment required for execution of the project, from all custom duties and taxes, and taxes of the same impact.

B) An exemption for equipment, spare parts and primary materials required for the operation of the project, from all custom duties and custom taxes imposed on imports as well as other taxes of the same impact for a period of five years.

C) Exemption of the project from the income taxes on its activities for a period of five years as from the date of commencement of production or of work, depending on the nature of the project. This period shall be extendable by an additional duration of three years by a decision from the General People's Committee upon a request of the same by the secretary. Profits of the project will enjoy these exemptions if reinvested. The investor shall be entitled to carry the losses of his project within the years of exemption to the subsequent years.

D) Goods directed for export shall be exempted from excise taxes and from the fees and taxes imposed on exports when they are exported.

E) The project shall be exempted from the stamp duty tax imposed on commercial documents and bills used.

Exemptions mentioned in paras A, B, and D of this Article do not include the fees imposed in consideration of services such as harbour, storage and handling dues.

Article (11)

Equipment, machinery, facilities, spare parts and primary material imported for the purpose of the project may neither be disposed of through sale or abandoned without the approval of the Authority and after payment of custom duties and taxes imposed on importation thereof; nor be used for purposes other than those licensed therefore .

Article (12)

The investor shall have the right to:

A) Re-export invested capital in the following cases:

- End of the project's period.

- Liquidation of the project.

- Sale of the project in whole or in part.

- Elapse of a period of not less than five years as of the issuance of the investment permits.

B) Re-transfer the foreign capital abroad in same form in which it was first brought in after the elapse of a period of six months as of its importation in cases where difficulties or circumstances out of the investor's control prevent its investment.

C) It is permissible to transfer annually the net of the distributed profits realized by the project and interest thereof.

D) The investor has the right to employ foreigners whenever the national substitute is not available.

- The foreign employees who come from abroad have the right to transfer abroad a percentage of their salaries and wages and any other benefits or rewards given to them within the framework of the project.
- Conditions and terms regarding the implementation of this Article shall be set by the Executive Regulation.

Article (13)

The project shall not be subject to registration at the commercial register nor at the register of the Importers and Exporters; the Executive Regulation will set the procedures of the registrations at the Authority.

Article (14)

A project established in the local development areas or a project which contributes to food security or a project which uses installation and means conducive to save energy or water or contributes to the protection of environment, will enjoy the exemption mentioned in paras B) and C) of Article 10 of this Law for an additional period by a decision from the General People's Committee upon a proposal from the Secretary. The Executive Regulation will set the terms and conditions according to which the project could be considered as achieving these goals.

Article (15)

Not with standing ownership laws in force, the investor shall be entitled to hold title for land use. The investor may also lease such land, construct buildings thereon and be entitled to own any property or lease thereof required for establishment or operation of the project; all as per the terms and conditions set in the Executive Regulation.

Article (16)

The investor shall have the right to open for his project an account in convertible currencies at a commercial bank or at the Libyan Arab Foreign Bank.

Article (17)

Ownership of the project may be transferred in whole or in part to another investor with the approval of the Authority; the new owner will replace its predecessor in all rights, undertakings and obligations arising there from in accordance with the provisions of this law and other legislations in force. The Executive Regulation shall set the terms and conditions for the transfer of ownership.

Article (18)

In case it is proven that the investor has violated any provisions of this law or the executive regulation; the authority shall issue a warning to the investor to rectify the violations within a period of time specified therein. In case of failure by the investor to adhere thereto, the secretary, upon a recommendation by the Authority, may:

- Deprive the project from some of the benefits provided for in this law.

- Oblige the investor to pay double the exemptions granted to him.

Article (19)

The permit of the project may be withdrawn or the project finally liquidated in the following cases:

- Failure to start or complete the project in accordance with the terms and conditions set by the Executive Regulation;

- Violation of the general provisions of this law and Executive Regulation;

- Repetition of violations.

All in accordance with the procedures specified by the Executive Regulation.

Article (20)

The investor shall be entitled to petition in writing against any decision affecting him as per article 18 or article 19 of this law, or against any disputes arising because of the implementation of the provisions of this law within thirty days as of the date of notifying him by a delivery guaranteed letter; the Executive Regulation shall specify the proper authority to which petitions should be submitted and processes of petition.

Article (21)

The investor should:

- Maintain regular books and records for the project.

- Prepare an annual budget and profit and loss account audited by a chartered accountant as per the conditions set forth in the Commercial Law.

Article (22)

The employees of the Authority designated by a decision from the secretary shall have the power of the judicial officers to control the enforcement of this law and to unveil and record the violations and refer same to the competent authority; for this purpose the said employees shall be entitled to inspect the projects and check the books and records relevant to their activities.

Article (23)

The project may not be nationalized, dispossessed seized, expropriated, received, reserved, frozen, or subjected to actions of the same impact except by force of law or court decision and against an immediate and just compensation provided that such actions are taken indiscriminately; the compensation will be calculated on the basis of the fair market value of the project in the time of action taken. The value of the compensation in convertible currencies may be transferred within a period not exceeding one year and according to the rate of exchange prevailing at the time of transfer.

Article (24)

Any dispute arising between the foreign investor and the state, due to the investor's act or to actions taken by the state, shall be referred to a court having jurisdiction in the Jamahyria except where there is a bilateral agreement between the Jamahyria and the state to which the investor belongs or where a multi – lateral agreements to which the Jamahyria and the state to which the investor belongs are parties that provide for relevant reconciliation or arbitration, or there is a special agreement between the investor and the state containing provisions in regard to an arbitration clause.

Article (25)

Foreign investments in existence on the date of issuance of this Law shall enjoy the privileges and exemptions provided for herein.

Article (26)

Provisions of this law shall not apply to foreign capital invested or to be invested in petroleum projects as per the provisions of law number 25 of 1955, as amended.

Article (27)

The executive regulation to this law will be issued by a decision from the General People's Committee upon a proposal from the Secretary.

Article (28)

Law number 37 of 1968 regarding investment of foreign capitals in Libya is hereby repealed and so are any other provisions that may contradict the provisions of this law.

Article (29)

This law shall be published in the Official Gazette and in the different media and be effective as of its publication in the Official Gazette.

Source: CBL, available at: http://www.cbl-ly.com/bb2.htm (in Arabic and in English)